THE ROLE OF

Foreign Capital in Indian Economy

AND

Its Future

K. C. BHANDARI, M. Com.
Holkar College, Indore, Madhyabharat.

LAKSHMI NARAIN AGARWAL
Hospital Road
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PREFACE

This work is the result of investigations and study pursued at the Lucknow University during the year 1947-48

It attempts to examine the role of 'Foreign Capital' in Indian economy and its future. The entire subject has been discussed in seven chapters. The first chapter introduces the subject, draws out its importance and indicates various forms in which the foreign capital has penetrated into the country. The second chapter is a historical retrospect which deals and discusses the three different stages in the history of the foreign capital in the country, 'Merchant Capital' (1600—1850) 'Industrial Capital' (1850—1914) and the modern stage of 'Finance and Loan Capital' (1914 onwards). Reference has also been made of the technique of working of the foreign capitalists in the country with special emphasis to their financial and managerial integration

The third chapter discusses the various estimates of foreign capital in the country from time to time and emphasizes the immediate necessity of a complete census of foreign investments in the country by a competent body like that of the Reserve Bank of India

The fourth chapter shows the development of some recent trends in the economy of our country with

regards to foreign capital. The next is the resume of various views and counter views held by the nationals as well as the foreigners in the country.

The sixth chapter takes note of the country's most pressing and urgent needs at present and arrives at the conclusion that our needs for foreign capital to day are greater than in any period of our history. The problem and significance of international investments with relation to present world capital market has also been discussed and hopes for help from the side of the United States of America entertained.

Finally in the last chapter the doubts of some of our nationals as to the 'Foreign domination comes with Foreign Capital', have been shelved. Attempt has also been made to remove the suspicions lurking in the minds of foreigners, as regards the development of the new trend of 'nationalization', and the new phase of riots and civil strife in the country. As regards the trend of Nationalization is concerned, our leaders have announced times without number that it would only be confined to a particular sphere. Riots and civil strife on the other hand, is a temporary phase in our nation's life and the foreigners may not feel it a perpetual danger. Lastly various restrictions on foreign capital in the country proposed by various economists from time to time have been hinted at and the conclusion reached that anything of that sort will only hamper the growth of our industrialization.

The idea of foreign domination and influence should not be entertained now when we have become a sovereign and independent country. To-day we cannot help ourselves in a better way than by inviting foreign capitalists in the country, entering with them into partnership and thereby exploiting our resources to the fullest extent. Thus alone we would succeed in our drive for more production and do some good to our millions of countrymen who had been groaning too miserably under the pressure of great scarcity and rising prices since a very long time. That alone would be a real glow of 'Freedom' to them.

The writer is conscious that with the short period at his disposal and the acute times of strife and insecurity prevailing throughout the country during the course of the term, he has not been able to do full justice to the subject of 'Foreign Capital' as such, but still its role in the past and its future in our country's economy has been discussed to the best of his ability.

In view of dearth of any published data on the subject, the writer has entirely depended upon State documents, official reports, personal letters and general study for most of the information presented here. The theme of the thesis as far as the future of foreign capital in the country is concerned is undoubtedly critical and it is just possible that the writer may not have succeeded in disarming his critics who may go through the following pages with some sort of prejudice.

In the end the writer would be failing in his duty if he does not express his gratitude to so many persons and institutions both private and public for help and collaboration in compiling the information and material contained herein He is extremely thankful to Dr Madho Mal Mehta M Com (Allahabad) Ph D (Allahabad) who had taken much trouble in revising his work and offered various suggestions He cannot fully express in words what he owes to Mr B N Chatterji M A , Head of the Department of Economics, Faculty of Commerce, under whose supervision he had the opportunity to work It is entirely owing to his kind encouragement that the writer undertook the work and his criticisms and suggestions have always been of greatest value

His thanks are also due to the secretaries of the Bombay Millowners Association, Bombay and the Indian Jute Mills Association, Calcutta for replying to his queries

Faculty of Commerce,
Lucknow University,
Lucknow

K S BHANDARI

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CHAPTER I

INTRODUCTION

Importance of the study of Foreign Capital in India,—Entrepreneur Investments—Rentier Investments,—Different forms of entry of Foreign Capital in the country

With the emergence of new and free India, great many problems have sprung up. India has taken the place in the comity of free and civilized nations and now it is upto us to take stock of our affairs and do our utmost to make improvements on all fronts. The economic front will no doubt absorb most of our energies.

The global war (1939-45) has undoubtedly returned India, a creditor country, but, it has left our economy entirely disrupted. Every thing is to be put in order now. The standard of living of our people is to be raised, our industries are to be reorganized and expanded, our overworked transport system is to be improved, arid and fallow land is to be irrigated to relieve the acute food shortage and what not. But all this will require enormous capital resources. Will our country be able to raise the entire amount of capital required within itself, or shall we have to seek other sources? Is it worthwhile to raise loans in foreign countries? Will we be able to do so? Are we to give foreign capital a free entry as in the past or are we to put restrictions on it—mild or stringent?

What has been the role of foreign capital in Indian economy in the past? Did it develop the country in the real sense of the term or had there been only a top sided development? What is in store for foreign capital in India in future? Some amount of confusion prevails at present and too many conflicting views are being expressed in the absence of a clear enunciation of policy with regard to these matters Let us examine and investigate the role of foreign capital in Indian economy in relation to its past and future

India has been since the early days of its economic development under British Rule, a debtor country. Large volumes of foreign capital (mostly British) have been invested in government and municipal bonds, in railways, the coastal shipping, trade, banks, insurance companies, mines, tea estates, cotton textiles, jute mills, iron and steel industry, departmental stores and so on In fact it would be difficult to find a lucrative field of economic activity in which British or some foreign capital has not got some share large or small In addition foreigners also own house and building properties especially in large cities and towns besides agricultural lands and other estates

The influx of foreign capital in India had various fundamental economic and political effects The little or greater industrial development in India that we see to-day was pioneered and initiated by foreign capital Our well-built transport system, our huge

irrigation projects and our flourishing industries all owe their origin to foreign capital

On the other side the picture is not so bright The far reaching effects of the creation of vested interests—powerful and strong enough to mould government policies in their own interests, and last but not least the suppression of political consciousness and ruthless exploitation of our natural resources followed greatly the advent of foreign capital in India

Let us first investigate the different forms of foreign capital that entered our country

Entrepreneur and Rentier Investments

There are different forms in which foreign capital usually gets entry. India and South East Asia are countries where entrepreneur investment predominates. Entrepreneur investment always brings into the investment receiving country the business control of the foreigner over his investments It is not necessary that the foreigner himself should enter the country. He may exercise his entrepreneurial functions from abroad. A foreign investor actually appears in Java and Malaya or Phillippines while he frequently does not do so in Europe. The answer lies in the cultural differences between the investing country and the country receiving investments *1

In India formerly the entrepreneur had himself come, invested funds and worked the ventures. Lately

*1 Helmut G Callis—"Foreign Capital in South East Asia."

as conditions stablized, government administration improved and means of communication and transportation developed, rentier investments also began to develop where in the investor exercised his entrepreneurial functions from abroad through agents appointed in our country

With the growth of vigorous nationalism throughout the world, rentier investment is considered to be the most appropriate form of capital movement rather than the entrepreneur investment As has been already pointed out, rentier investment need not usually and does not bring foreigners in But great rentier investments require for their development highly developed markets, effective use of financial instruments, well developed means of communication and transportation, stability of exchanges and the possibility of liberal mutilateral trade

Different forms of entry

In India foreign capital has flown in various forms This fact alone makes our survey a bit difficult and in some respects impossible too A considerable amount of foreign capital has flown into the country in the form of sterling debt of the Government of India, wherein, the government raised sterling loans in Britain A good deal of capital working in the country is in the form of joint stock companies registered elsewhere than in India but working principally in the country Besides this, there are municipal and port trust loans raised in foreign countries A great deal and in fact the largest proportion of foreign capital invested in

the country represents the companies registered in India under the Indian Companies Act, doing business in India as well as elsewhere Most of them of course, confine their business solely to the borders of the country Then there are public utility concerns as irrigation projects, hydel projects, electricity supply companies, tramway companies which employ huge foreign capital The railways and post and telegraph were entirely the field of foreign capital until lately when they have been almost completely nationalized Then there have also been foreign investments in Government of India rupee securities And lastly foreign capital has also sought partnership in various Indian firms and also acquired various buildings, cinema houses aerodromes and landed properties

Such varied and vast is the field of foreign capital entering our country It would be of interest now to study the various stages in which the foreign capital has penetrated in India

CHAPTER II

THE PENETRATION OF FOREIGN CAPITAL IN INDIA—HOW IT WORKED

* Various stages of foreign capital, Merchant capital,—Industrial capital,—Finance and Loan capital ; Managing Agency System,—Financial and Managerial Integration.

The various forms in which foreign capital penetrated into our country have been hinted at in our previous chapter. Let us now discuss the various stages of the growth of the foreign capital in the country with particular reference to its technique of working

Three main periods stand out prominently in the history of foreign capital in India The first in the period of 'Merchant Capital' extending upto the end of 18th century The second is the period of 'Industrial Capital' which established a new basis of exploitation of India in the 19th century The last is the modern period of 'Finance and Loan Capital', with its controversial future

'Merchant Capital' (1500—1880)

Capital penetration in India started with the establishment of Portugese factory in the year 1500 at Calicut. The British East India Company was then founded in 1600 and then followed the Dutch East

India Company in 1602 and French companies in 1614

The East India Company proved more powerful and influential among all the other companies though it had been late in the field The Dutch had already been stationed and established strong business houses For the larger part of the 17th century the East India Company was far behind the Dutch Company and it was very difficult for her to snatch from her the trade of spices which was almost a monopoly of the Dutch It led her to develop new lines of trade as indigo and salt petre Besides India had a good many industries at that time As a matter of fact it were not the raw materials which attracted the foreign traders and merchants to the country but its fine linens and calicoes, its jewels and embroderies woolen and silk manufactures and a hundred other things French company s competition was eliminated after a long tussle which ended with the seven years long war

The advent of 18th century put the company in face to various trouble It had to assert her position by arms and power if it had to retain its trade and position With the virtual conquest of Bengal at the battle of Plassey in 1757 it fell to the company to reconstruct its territory as well as to carry on trade But the trend and nature of trade could not last long There arose a considerable opposition in England of the trade of the company which checked the progress of Industrial Revolution' in England The agitation grew keener towards the end of the 17th century and

from that time onwards the use of Indian textiles was penalized in England by prohibition and heavy import duties The Merchant Capitalists thus first of all accumulated vast wealth by trade in industrial goods and then they helped in the crushing of our industries and checking their growth The development of the country, as such, never remained the objective of the foreign capitalist entering our country The interest had always been, the welfare and progress of the parent country

The power and influence of the company as such could not remain for a long time and parliamentry control was set up by the Regulating Act of 1773, under which the estates and properties of the Company, established in India, were taken over by the Crown There ends the first stage of Merchant Capital in India under which the exploitation of the country by foreigners with foreign capital had begun

Industrial Capital (1800—1914)

In India, throughout the 19th century, laissez faire remained the chief principles of administration The entire country was thrown open for the private enterprises, to work, exploit, construct and develop the enormous resources of the country No local capital or enterprise was forthcoming Old industry had died—there was almost no strength left to revive it Moreover people had become weak and nervous and they looked for the government to do everything for them People in India had, from times immemorial

taste for gold and silver and previous materials and their savings mostly went to swell the hoards of Indian masses Capital was too shy People did not want to take any risk Moreover banking was not developed and there was hardly any capital coming forward for industrial purposes or for other constructive works

East India Company formerly could not develop the resources of the country of want of necessary finances It had constantly to be engaged in wars or civil strifes and the funds did not allow her to entangle herself in any schemes of development Moreover it was simply a trading concern which looked for immediate business and profits But when India came under the Crown, the responsibility of civil administration, peace and security of the masses, increased and gradually it came to be realized in the official circles, that development and improvement is to be affected in the interests of Crown as well as the public The Queen's proclamation on 1st November, 1808, stated that peaceful industry was to be stimulated, works of public utility and improvement were to be promoted "In their prosperity will be our strength, on their contentment our security, in their gratitude our great reward", was the conclusion of the message

The Britisbers had begun settling as tea planters since 1833 and coffee plantation has also been started by forigners with foreign capital by 1840 Then came the era of great commercial revolution in India It exactly coincided with the Industrial Revolution in

England Britain needed for ther growing industries, raw materials from India with increased speed Indian cotton was needed for the textile industries of Manchester and raw jute for the great industry at Dundee No speedy export of these raw materials was possible without developing the transport system in India The ports were to be linked with the interiors to help in the speedy exports At once the railway development was started in India It was not only meant to supply materials for the rising industrialism in Britain but also its needs was brought to the notice of the authorities by the great mass uprisings of 1857, the first war of Independence (the miscalled 'Mutiny') Peace and security was to be maintained at all costs Troops were to be moved at a minute's notice to check any probable mass rising So after 1857 great activity of public works was started Railways were given the first importance Formerly, 'troops could only be moved in miles a day With the Railways 400 miles could be covered in a day'*

The point to be noted for our purposes here is that for railway development every rail and every locomotive and at first even the sleepers had to be brought to India from Britain English artisans had to be imported Every bridge material and every yard of telegraph wire had to be fetched from England India did not produce any at that time Moreover the great Iron and Steel Industry of Britain was rising at that time and it needed a market Thus two major interests of British people were served by the railway

* Indian Administration in the past 30 years—1899

development in India—economic and political The economic interests were the finding immediate market for their finished products and capital investments, and the political interests was the preserving of law and order and for suppressing all possible future mass risings

The exploitation of the country during the period of Merchant Capital had resulted in the accumulation of a vast quantity of capital which was available for safe and profitable investment, such as provided by railway construction under the 'Guarantee System' Private companies were given charge of the railway development in India and they were guaranteed 5% interest in the first instance The system has been recognized as the most uneconomic and expensive system of railway development That never gave incentive to companies to work hard and earn more The companies never cared for economies because they were secured of their interests over the capital investments "Enormous sums were lavished, reported the former Finance Minister of India W N Massey in an enquiry, and the contractors had no motive whatever for economy All the money came from the English capitalist and so long as he was guaranteed five per cent on the revenues of India, it was immaterial for him whether the funds that he lent were thrown into the Hoogly or converted into bricks and mortar—it seems to me that they are the most extravagant works that were ever undertaken" And the fact is that *railways* never earned that five per cent prior to 1900 and the Government had to make up the deficit every time

The famines between 1860 to 1880 proved the second stimulous to public utility works A common policy of famine prevention led to the development of irrigation projects and canal works A net work of canals was built in which enormous amount of British capital was invested

T e railway development, the construction of irrigation projects and canals again gave stimulous to coalmining, engineering, repairing, telegraph and postal communication etcetra All were started with foreign capital and most of this capital was raised in British as sterling public debt England was passing through the golden age of British capitalism and was heading as the greatest nation of the world The British workers and labourers working in the factories and the industries of England were reaching the point of exhaustion and they needed some stimulant Tea plantations were already flourishing by that time Tea industry was now developed in India by British capital to inviograte the British worker '

Jute industry was the another avenue of foreign capital in India The demand for some carrying material began to be felt in the middle of the 19th century and more particularly after the repeal of corn laws in England in the year 1846 Raw cotton had to be carried to feed the textile mills of Manchester and indigo had also to be exported from India for the manufacture of dyes for the industry

In the same period private foreign banking also

began to develop to exploit our industries and resources The Presidency Banks act of 1870 regulated the three Presidency Banks under government protection which later in 1921 were amalgamated into the all powerful Imperial Bank of India The exchange banks with head quarters outside India especially the Chartered Bank of India, Australia and China, which obtained its charter in 1853, the Mercantile Bank of India, the National Bank of India, dating from 1864 and the Hongkong and Sharghai Banking Corporation dating from 1867 developed their operations in India in union with the Presidency Banks dominating finance, commerce and industry under foreign capital and control These foreign banks have been notorious in the economic history of India for working against the interests of the country They have always supplied credit to foreign businessmen, helped foreign industries and advised foreign nationals A great deal of discrimination has been practiced by these banks between India and foreigners Indian industrialists and businessmen, even the most stable and renowned out of them are not trusted by these exchange banks as far as granting of credit, discounting of bills or obtaining of letters of credit etcetera are concerned Indian have been at times quoted separate rates of discount, asked for additional signatures on various documents, required to give advances against letters of credit, when at the same time foreigners could get many concessions There had been a great deal of public criticism of these exchange banks and their activities It was generally complained that Indian business men were allowed transactions through such banks on the specific condi

tion that they would ship their goods with the particular vessel (in which they were interested) and also insure their risks with the particular Insurance Companies. They being virtual monoploy of transacting foreign exchange business in the country have not allowed any other national banks to develop such business. They have combated all such attempts whenever made, with all the strength and reserves behind them. Moreover any bank attempting such business has not been co-operated by these foreign concerns and foreign nationals too. What chance has the poor bank then to survive under such hostile circumstances ?

On looking to the details of foreign investments in India, discussed in the next chapter, it will be seen that the so called capital investments in India did not by any means imply a development of modern industry. 97% of the foreign capital invested in India before the war of 1914 was devised for purposes of government, transport, plantations, and finance that is to say to purposes auxiliary to the commercial penetration of India, its exploitation as a source of raw materials and market for British goods and in no way connected with industrial development* ' It must also be noticed at this stage that the first and foremost nucleus of foreign investments in India was the public debt—a favourite device employed by the Britisbers to establish their stranglehold. This was the main feature of foreign

* Deduced from Sir George Paish's estimates of foreign capital in India and Ceylone in the year 1911. Journal of the Royal Statistical Society Vol. LXXIV pt. I, Jan. 2,1911 page 86

investments in India during the first period of Merchant Capital Private investments began to be flooded during the Industrial stage of foreign capital in India, which we have discussed in these paragraphs During the last century or so no public debt (Sterling loans) have been raised in England for the purposes of industrial development in the country

Finance or Loan Capital.

The beginning of the twentieth century may be taken as the age of 'Finance or loan capital' in India Though the basis for the finance Capital exploitation of India was laid before the first world war in the form of various Jute, Tea and Cotton Textiles and other ventures yet its fuller working out was only to be reached in the subsequent period There was one great potent reason for that Britain's market stronghold was slackening in India Her exports to India began to fall Other countries began to steal march over her That was United Kingdom's share in Indian imports fell from 64 % in 1913 to 35% in 1931-32 to 26 8 % in 1942-43* ' Britain when it looked to its own collapse began to find out means and ways of compensating herself against the loss of profits from the falling exports to India The new basis of finance capitalist exploitation was found out and thence forward finance capital grew in India to large volumes The loss ocassioned by the fall in exports was more than compensated by the rise in investments and

* R Palme Dutt—"India Today" Page 117

consequent enormous earnings as interests The country was free for all foreign investments There was no restriction what so ever The vast undeveloped country attracted enormous amounts of foreign capital during the period

It is generally claimed that this period witnessed definitely a great deal of development in contrast to the previous ages of foreign Merchant Capital and foreign Indu trial capital An impartial examination of the facts will reveal the true position In the first place, whatever development there has been taken place during this period, led to intensified exploitation of our resources Again all industrialization before the war of 1914—18 and especially since 1914 is in no way comparable to other major countries in the same period One will have to look into the wonderful development which the other dominions of the United Kingdom itself have been able to bring about within themselves during the course of this period The progress achieved by Canada, Australia etc is remarkable in the respect But here in this country whatever *industrial development there has taken place, had to* fight its way against intense opposition from British finance capital alike in the financial and political field Apart from this it has taken place in a lopsided manner principally in the light and consumers' goods industries with very weak development *in the decisive* and heavy industries Moreover whatever development there has been, was only due to the direct stress of war So what is to be noted for our purpose here is that foreign capital in India has never deliberately

aimed at development and improvement of the country as such All what has been aimed at, is the earning of profits, amassing of wealth and safeguarding their own interests The little of development and industrialization visible today was all by the way

After the world war 1914—18 Indian capital also began loosening its shackles and coming out for industrialization and development It began to compete with the foreign capital stationed in the country A bit of encouragement was also the grant of protection after 1921 But despite the advance of Indian capital foreign capital remained in effectively monopolist domination in banking and commerce, exchange and insurance, in shipping, in tea, coffee and rubber plantations and in the Jute industry The whole political system working in the country also helped to maintain this domination It would be surprising to note that till late, even in cotton textile industry, the home of Indian capital, the degree of control of British capital through the Managing Agency System was considerably greater than is generally realized

The report of Tariff Board Cotton Textile Enquiry Committee once gave a comparative position of Bombay Cotton Textile Industry management in India They laid down that the English Managing agents, while they controlled only 22% of the companies controlled 33% of the mills 32% of the spindles, 30% of the looms and 50 3% of the capital This is in the industry which has been the principal field of advance

of Indian capital Inspite of the fact that a good deal of liquidation and 'change over' of foreign capital has taken place in recent years, the hold of British capital on Indian industry still continues

The most important and significant role of Finance and loan capital in India has been in the sphere of banking To talk of independent Indian capitalist development so long as financial power remains monopolised in British or some foreign hands, is only an illusion

The modern banking system in India is organized through four groups of institutions

1 Reserve Bank of India—which constitutionally no doubt is a shareholders bank but is essentially a state department The majority of elected members in its board is only a facade and the real control lies with the foreigners During the war 1939 45 it worked as a satellite of British Imperialism

2 Imperial Bank of India—In which there is an overwhelming British Directorate

3 The Exchange Banks or Private British and Foreign Banks As has been already pointed out these are banks having head quarters outside India and are wholly non Indian in character They control the finance of export and import trade of India They were sixteen in number in 1943, the most important being the Chartered Bank of India, Australia, and China, The Merchantile Bank of India, the National Bank of India, the Honkong and Sanghai

Banking Corporation and Lloyds They hold nearly 1/3 of the bank deposits in India

4 The Indian Joint Stock Banks or private banks registered in India come at the bottom of the pyramid Here alone Indian capital is able to play some part But even here one of important and larger banks as the Allahabad Bank which is affiliated to the Chartered Bank of India, Australia and China, has fallen under foreign control So even the total strength of Joint Stock Banks too cannot be taken as a measure of Indian banking strength

That the foreign control of *banking in India has* been used to the detriment of Indian industrial and independent economic development and only for the benefit of foreign and British interests is no secret today. Some thing has already been noted in this respect in the preceeding paragraphs The statement of Mr J C Goswami submitted to the External Capital Committee 1925 may be noted —

"I should like to express the common belief—for which I know there is a good foundation in actual facts that racial and political discrimination is made in the matter of credit and that Indians usually do not receive in the matters of credit the treatment that their assets entitle them to, while on the other hand British businessmen have frequently been allowed larger credit than what on ordinary business principles they aught to have got *

*J C. Goswami s Minute appended to External Capital Committee Report. Page 24

The minority report of the Indian Central Banking Enquiry Committee endorsed this complaint. The Majority report recorded it with a significant silence and by-passed it with the lame excuse of "absence of fuller information"

Managing Agency System.

Reference has to be made to the system of Managing Agency in India Essentially the system has direct bearing on the Foreign Capital, as it is entirely the gift of the foreign capitalists in the country According to P S Lokanathan, modern Indian industry owes its development primarily to two class of people—British merchants who had come out to represent British trading firms and cotton merchants of Bombay and Ahemdabad The early British merchants in the country had wide experience and considerable financial resources at their disposal Most of them had earned enormous wealth during the period of Merchant capital Now with the beginning of the period of Industrial capital they began to pioneer and promote industrial concerns They developed a peculiar system of business management, finance and control which goes by the name of Managing Agency System in India It is not possible to trace the precise origin of the system, as it was the result of gradual evolution The history of notable foreign managing agency firms show that the system owes its origin to the enterprise and ability of individual men rather than any group of persons [illegible] of them came to India as representatives of some [illegible]ing companies During the early

period of their establishment they engaged themselves as simple traders but they were intelligent enough to turn to other lines of activity In the country they found vast undeveloped resources, plentiful supply of cheap labour, and intensive demand for the consumers goods by the teeming millions All that the country lacked was the industrial leadership, capital and finance They found the whole field at their disposal to work, construct, develop and earn They were great financiers and business men and had industrial aptitude They picked up some industry and began turning to others, and each set of industry opened way for others The rise of jute gave rise to coal industry, and then as auxiliaries to these were promoted boating and inland steamer companies

As has been pointed out, the early pioneers came as individuals Later on for the purpose of promoting the different concerns in which they were interested, these pioneers formed themselves into partnership firms In many cases they merely comprised a few members of the family with one or two outsiders During recent years the tendency has been to form limited liability companies Recently some concerns have also converted themselves into public limited concerns It is, however, significant to note that they have retained the control and domination in their own hands

The shy nature of our capital has been hinted at in the preceeding paragraphs When the earlier British Managing Agency firms established themselves, there was hardly any investing class as such.

Capital could not be attracted from the people of India and these managing agents had perforce to supply all of it "After the concerns had established shown to be working profitably, it was possible to attract *investors to them* and *this* built up *in* India an investing public" Thus the foreign managing agency firms promoted and nursed a large number of enterprises, and as a matter of fact in some cases they had to struggle for quite a long period when they were in a position to put their shares in the open market As a writer put in it the 'Capital' 1932, "The managing agents nourished the growth of new enterprises and carefully nursed the young and immature" When they thought that the time was opportune they converted their companies by selling a large portion of their interest and that gave them further opportunity to work out other enterprises from the proceeds But in each case it is noticeable that while parting with their interests they were careful to retain their power and control in one way or the other Either by agreement they secured a long fixed tenure of management in their name or in some cases they got themselves permanently appointed as Managing Agents of the Concerns *

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* How the Managing agents secured permanent right of management (now of course it has been regulated by an amendment to the Indian Companies Act) is shown here The following is an extract from the Articles of Association relating to two *mills managed* by Messrs, Andrews Yule & Co

(*a*) The firm of Messrs Andrews Yule & Co and their successors in business under that or any other name or style and their assigness shall be and continue to be the managing agents of the company and shall be as such managing agents be remunerated by a commission of 5 percent on the net profits of the company and Rs 500/ per month for a suitable office and establishment in Calcutta to be provided by the agents but in case such net profits

The whole technique of their work shows the zeal, cleverness and intelligence of the foreign capitalist who came over to our country Moreover these foreign managing agents have from time to time shown a great deal of adaptibility They have changed the course of action according to the circumstances and statutes passed from time to time When after the year 1913 the law required the constitution of a Board of Directors the Managing agents had no difficulty in getting together a few friends as directors from among their business associates who remained perfectly aware that their continuance on the Board depends on their loyalty to the Managing Agents

It is not relevant for our purpose here to go deep into the system as such but it must be noted that Managing agency system in India constituted a sort of bottleneck through which British and other foreign capital flowed to the country and got distributed among the varied enterprises and industries And indeed 'but for managing agency system the pace of industrial

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and the sum of Rs 500/ per month shall not amount to Rs 42 000/ per annum the remuneration shall be made up to Rs 42 000

(*b*) Central Jute Mills

The firm of Messrs Andrew Yule & Co and their successors in business under that or any other name or style already irrevocably declared by the Memorandum of Association to the Managing Agents of the company shall as such Managing Agents be remunerated by a commission of 2 per cent on the gross proceeds of sales of goods made by the company but in case the said 2 per cent on the sales shall not amount to Rs 30,000/ then the remuneration shall be made up to Rs 30,000/ in any year

(Re-quoted from Industrial Organization by P S Lokanathan)

development in India would have been slower, and the opportunities for British capital and enterprise to function in India would have been limited

Financial and Managerial Integration.

It would not be out of sphere to hint at one of the very important characteristic of the foreign managing agents in the country which has now been adopted by our Indian capitalists too As has already been pointed out the importance of Managing Agents has not ceased even to-day Some of them control and dominate scores of firms and business houses Killie Nixon & Co , Burn & Co , Bird & Co , Andrew Yule & Co , and Shaw Wallace & Co are the notable examples

Their function and mode of working has been hinted at in the preceeding paragraphs As they become stronger and powerful they also began extending their sphere of influence They became quite at home in their profession and now they (being a group of two to five members) were in a position to manage, control and work out more than one concerns Some time the local enterprisers having started some concerns found themselves in difficulty—financial or otherwise and sought their assistance Others needed effecient hands for successful business management and so sought their services At the same time these foreign managing agents were keen to extend their activities and increase their earnings and power Thus they grew, and grew to last and survive in large number, till some local

people became adapt in the task Even to-day when some of the Indian managing agency firms have become experts in the task, the foreign firms exist and it can be remarked without any prejudice that they have not out lived their utility

Bird & Co of Calcutta who are associated with another managing agency firm namely F W Heiglers & Co, between control and manage Jute Mills, Coal companies, a paper Mill, investment trust companies, a stone lime company and others

Burn & Co also of Calcutta associated with another managing agency firm viz Martin & Co between them control or manage jute mills, coal companies, two iron and steel companies, railway companies and others Similarly another foreign firm Shaw Wallace & Co, Ltd, acts as Managing Agents or Managers for about sixteen tea companies, five coal companies, one tin plate company, three fertilizers companies etc They also act as secretaries for about four limited concerns

With some important exceptions like Tatas, Birlas and Dalmias, Indian managing agency firms promote concerns in the same line of business e g in the cotton textiles, hydro electric concerns, oil mills, chemical companies, civil air service etc *

* Tata sons Ltd is the foremost firm of Indian managing agents who in the past have been the pioneer in promoting such concerns as the Tata Iron and Steel Co, Ltd, three hydro electric companies viz, the Tata Hydro Electric Co, Ltd., the Tata Power Co, Ltd., and the Andhra Valley Power Supply Co, Ltd, have again in the recent years been the pioneers of civil aviation They have also promoted the investment Corporation of India Ltd. (A company formed to undertake issue and underwriting)

But the promotion activity of these managing agents and especially those of foreigners has not escaped criticism. It has been pointed out, for example that our industrial growth has suffered as a result of our dependence on the managing agents for the promotion of industrial concerns Whatever may be the grounds of prejudice and opposition against them, the trend of concentration of control of a number of concerns under one managing firms has resulted in an unnatural, monopolistic control of our economy for the country. The control extends to widely divergent industries

The following table from Dr Lokanathan's work 'Industrial Organization in India' illustrates the extent of concentration

Managing agents	Number of firms	INDUSTRIES						
		Jute	Coal	Tea	Elec & Eng	Trans-port	Sugar	Misc
Andrew Yule & Co	54	10	14	18		3	1	8
Martin & Co	22		7		6	8		1
Bird & Co	20	8	3		2	5		2
Gillanders Arbutnut & Co	17	2	3	5		6		1
Shaw Wallace & Co	16		6	7				3

CHAPTER III

ESTIMATES OF FOREIGN CAPITAL IN INDIA

Importance,—Statistical difficulties deficiency of data,—Need of census of foreign capital in the country,—Available estimates,—Our deductions

The question of foreign capital in India has been discussed and debated at length during the past few years, but surprisingly enough the participants in the discussion only dealt the problem without having at their disposal the basic statistics We live even to day in a statistical vacoum and no economic problem can be solved or grasped without filling that The importance of statistical figures with regard to foreign capital in India becomes all the more greater in view of the changed atmosphere all round to day The problem of foreign capital could not be well studied in the absence of genuine figures and whatever remarks and statements have been made are simply based on rough guesses Moreover there has been no official version over the amount of foreign capital invested in our country The Fiscal Commission in 1921 and the External Capital Committee in 1923—25 only dealt the subject from a theoretical point of view and did not touch the practical aspect of it

The government of the country uptill recently was also foreign and in the absence of co operation on the parts of foreign vested interest existing in the country,

if could not undertake any organized enquiry into the subject Now with the birth of new and free country we realize the utmost necessity of statistics and fuller information of the subject How much foreign capital is still invested in the country,—what have been the disinvestments during the recent years,—have there been also some further investments and if so in what spheres and forms ?

These are the facts which can only be studied in relation to up to-date statistics and exhaustive information

Again, after having our plans for the industrialization and development of the country ready we will have to find out the sources of finance, How much will we be able to raise inside the country—from taxation—savings—loans or from any other source, and how much will be have to raise in foreign countries etc are the questions of immediate importance

These questions can not be decided without up-to-date official and reliable statistics Hence there is a vital need of adequate statistics of foreign capital in the country The accurate computation of the total amount of foreign capital is very difficult, complicated and onerous task It has become all the more difficult because of the recent development of the "India limiteds" (dealt with in the succeeding chapter) and the mixed holdings in a number of companies

Certain companies that appear *prima facie* as foregin concerns are owned by a majority of Indians e g.

"Titagbur Paper Mills have now about 80 per cent Indian share holders"* Again there are other foreign concerns with very few Indian share holders During recent years there have been Indo-foreign financial alliances in which both Indians and foreigeners own capital Then a few foreigners' controlled concerns have appointed some Indians on their Board of Directors e g Jatia brothers—in Andrew Yule & Co, Mukerjees—in Martin & Co, etc, (though now Mukerjees virtually control the concern) Then the words 'India Limiteds' in the title of companies have all the more confused the issue These words are not always perfect guarantee of the foreign character of a company, for all the foreign concerns do not adopt these words while registering in India Again a number of subsidiaries of foreign companies are registered in India without any outward appearance of their foreign origin in their names

The difficulty of computation is also realized by British journals and economists "Financial Times" once laid down, "The importance of our financial stake in India is fully recognized, probably only by a limited number of experts Most people have no real conception of either its magnitude or diversity Many merchants, bankers and manufacturers who are actually engaged in the trade world, probably find it hard to arrive at, even an approximate computation of the actual amount of the capital and services which is represented by it External capital enters India in

* Wadia and Merchant, 'Our Economic Problems' page 465

such a number of forms that any calculations must be largely a guess work"

Need of Census.

Then who is to perform the task ? Reserve Bank of India by far is the most suitable and reliable agency to perform this business so vital to the needs of the country It should be the immediate business of the bank to institute an enquiry and collect correct statistics It has the required resources and it would he able to do it most effeciently It is certainly a matter of great regret that the Bank having been established as early as 1935 could not do it long since Any way this problem of foreign capital in India and its possible effects on the economic life of the country is a vital problem and the work should begin now at once without any further waste of time

Estimates of the aggregate amount of the foreign capital invested in India, as has already been pointed out, are in the nature of guesses and relate mostly to the pre war decades There are no official statistics on the subject

Foreign capital began entering the country since the early establishment of the foreign companies With the strengthening of the hold of the East India Company it began coming with more freedom and rapidity Then, as has been remarked 'on the basis of the plunder of India in the second half of the 18th century modern England was built up' *1

*1 R. Palme Dutt India today' page 93

The Industrial Revolution in England was also rising with great speed The new needs required the creation of a free market The face of the country was changed by the commercial penetration in the 19th century, as explained in the previous chapter This new basis of economic exploitation continued till the end of the last Great War (1914-18) when there was a far reaching change in the country's industrial policy The traditional doctrine of Laissez faire to which the Government of India so tenaciously clung, was finally abandoned

It can, thus be seen that the foreign capital began entering the country from very early times But during the initial stages of capital influx, it will be a great parody of reality to describe it as an import of capital The amount of actual import was very small "Only over the seven years 1856 62 in the whole period upto 1914 was the normal excess of exports replaced by an excess of imports totalling £22 5 million for the seven years —not a very large contributions for an ultimate total of capital investments estimated at £500 million in 1914 "*1

Over the period as a whole the export of capital from Britain to India was more than counterbalanced many times over by the counterflow of tribute from India to England even while the capial was being invested Again the only source of early foreign capital was public debt, the most favourable device of British Imperialism to establish domination over backward

*1 R Palme Dutt India today page 113

nations When the Government took over in 1858 they took over a debt of £ 70 million from the East India Company In the hands of the British Government the public debt doubled in 18 years from £ 70 millions to £ 140 million By 1900 it had reached £ 224 million By 1913 it reached £ 274 million By 1939 on the eve of the second world war it totalled £ 884 2 million divided into £ 532 4 million as Indian debt and £ 351 8 million of sterling debt of England *[11]

Let us now look to some British estimates of foreign capital investments in our country from time to time

Pre-War Estimates. (Before 1914).

For 1909 10 Sir George Paish in a paper read before the Royal statistical society in 1911 estimated the

*[11] It should be noted that the entire sterling debt cannot be taken as foreign capital as such, for the part of it was used for other purposes as war waged by Britain outside India—in Afghanistan China and other countries The origin of the debt lay in the first instance in the cost of wars and other charges debited to India and later also in the costs of the Railways and public works undertook by the Government The original £ 70 m was built largely by the wars of Lord Wellesely, the first Afghan wars the Sikh wars and the suppression of the rising in 1857 Of the next £ 70 m by which the British Government doubled the total in eighteen years only 24 m were spent on State Railways and irrigation works Much of the rest of it was charged to India for every odd charge that could be remotely or even fantastically connected to India or British rule in India e g When the Sultan of Turkey visited London in 1868 and his official ball was arranged at the India office the bill was charged to India

The Migration of Capital page 123 24

total of British capital investments in India and Ceylon (excluding private capital other than of companies i.e. capital for which no documentary evidence was freely available) at £ 365 million composed as follows :—*

1	Government and Municipal	£ 185.5 m
2	Railways	£ 136.5 m
3	Plantations (Tea, Coffee & Rubber)	£ 24.2 m
4	Tramways	£ 4.1 m
5	Mines	£ 3.5 m
6	Banks	£ 3.4 m
7	Oil	£ 3.2 m
8	Commerce and Industries	£ 2.5 m
9	Finance and Investments	£ 1.8 m
10	Miscellaneous	£ 3.3 m
	Total	£ 365 m

* Journal of the Royal Statistical Society——Vol LXXIV part I, Jan 2, 1911 page 186

The above estimate of Sir George Paish was admittedly a *conservative estimate leaving certain unknowable* elements out of account Other estimates of British capital investments in India before 1914 are —

(1) £ 450 m H E Haward (In "India and Gold Standard" 1911)

(2) £ 475 m Economist of Feb 20, 1909 'Our Investments abroad'

Post War Estimates (After 1918).

Then we come to the period precedent to Great Depression of 1929 Findley Shirras believed that foreign investments in India could not be larger than £ 500 million But on study it was realized that this estimate was much below the mark because it excluded investments held by resident foreigners, debenture capital of *foreign companies*, the *foreigners* share of the rupee capital of companies registered in India and did not consider the capital in partnership firms and buildings and landed properties etcetera

Similar objections can be raised against other British estimates as well The Britishers have invariably underestimated *their stake in* the country

Mr Sayer in an article in the Financial Times of Jan 9, 1930 *estimated the total of British Capital in*vested in British India as follows —

Government Sterling debt	£ 261 m
Guaranteed Sterling debt	£ 120 m
5% War Loan	£ 17 m
Investments in companies registered in India	£ 75 m.
Investments in companies registered outside India	£ 100 m
Total	£ 573 million.

Economist after some elaborate calculations arrived at a sum of £ 354 m for the year 1928-29 It is strange that such a well known and reliable journal so much misrepresented the issue The Sterling part of Indian public debt alone stood at £ 354 million in 1929 *

The Financial Times, London put the figures of £ 583 m for the year 1930, only £ 83 m more than the estimate of Findley Shirras as noted above

Another British estimate is that of Robert Kindersley He studied British overseas investments for eleven years from 1926 to 1938 He gave comparative figures for 1931 and 1935 for the nominal amounts invested in India and Ceylon under five several heads of classification as under —

* Journal of the Royal Statistical Society Vol LXXIV Pt. I 1911, p 188

Sir Robert Kindersley's Estimates of Overseas capital in India and Ceylon (in £ millions)

HEADS	1931	1935
Govt & Municipal	261	256
Railways	90	84
Public Utility	12	7
Mines	14	12
Miscellaneous	81	79
Total	458	438

The figures in this table exclude —

(a) Securities which are not quoted on the London Stock Exchange

(b) *Investments in partnerships, firms and proprietors* holdings of Britishers resident in India Kindersley has given no indication of his views regarding the approximate magnitude of capital under category (b) and he also stated that should these amounts be included in the estimates "the total investments in India would have to be substantially increased"

Thus like other British estimates, Sir Robert Kindersley's figures too may be said to under-rate the actual position The sterling debt of the Government of India alone amounted to £ 388 million in 1931 and £ 384

million in 1935. But the amount allotted by Sir Robert Kindersley for the two years under the head 'Government & Municipal capital' was only £ 261 million and £ 256 million or below the current amount by £ 127 million and 128 million respectively even without making the allowance for the fact that the amounts given by Sir Kindersley include Municipal capital.

Under estimation exists also in respect of the volume of the commercial and Industrial capital The total amount of paid up capital of joint stock companies registered elsewhere than in India (excluding Burma) was of the aggregate value of £ 702 million in March 1931 and £ 546 million in March 1935 These figures no doubt include also the capital of companies which do the main part of their business in other parts of the world But according to B R Shenoy the paid up capital of companies which by their very nature must be operating principally in India alone totals up to £ 218 82 million in 1931 Besides this there are foreign companies engaged in banking and loan, insurance, navigation, transport and transit (other than railways) and tramways and trading and manufacturing companies It is therefore difficult to accept the authority of Kindersley who has given the figures of £ 197 and £ 182 million on account of Industrial and commercial capital for 1931 and 1935 respectively

Moreover the securities quoted on the London Stock Exchange on which Kindersley has based his figures are quite an inadequate guide of the magnitude of foreign capital in India

Further an article in the Financial Times of 9th January 1930 states that "the £ 700 figures would probably not be very wide of the mark"

An estimate by the British Associated Chamber of Commerce in India for 1933 puts the figure at £ 1,000 million as under —

	Particulars	*(In million pounds)*
1	Sterling debt of the Govt	379
2	Companies registered outside India but operating in India	500
3	Companies registered in India and the rest	121
	Total	£ 1,000

Estimates (1938-39)

Taking the returns given in the Statistical Abstract (1930 31 to 1939-40) we find that in 1938-39 the Sterling capital that is the paid-up capital of joint-stock companies registered elsewhere than in India, but working in British India was distributed, as has been shown on the page following

(*Re quoted from Wadia and Merchant,* 'Our Economic Problems' page)

	Particulars	*(in Pounds)*
1	Railways and Tramways	23,000,000
2	Other transit and transport	12,000,000
3	Tea	26,000,000
4	The planting companies	2,500,000
5	Coal Mining	240,000
6	Other mining and quarrying companies	110,800,000
7	Cotton Mills	270,000
8	Jute Mills	3,290,000
9	Cotton ginning, pressing baling	150,000
10	Estate, land and building	340,000
11	Sugar companies	300,000
12	Others	7,290,000
	Total £	186,880,000
13	Banking and Loan companies	96,250,000
14	Insurance Companies	78,120,000
15	Navigation companies	35,510,000
16	Trading and Manufacturing companies	344,370,000
	Grand Total £	741,130,000

Besides it has also been agreed from various authorities that the estimated total of British foreign investments in the world as a whole on the eve of war was £ 4,000 million About 1/5 or 20 per cent of these investments related to India

While discussing the available estimates of foreign capital in the country upto the eve of the second world war, we noticed that none of the estimates took into account the recent trends (discussed in the succeeding chapter) of 'India Limiteds' and 'Indo-foreign alliances' Moreover only the estimates of British capital have been considered That way the estimates do not reveal the entire foreign capital The non British investments which have been estimated at about £ 200 million on the eve of the second world war are to be accounted for while considering the problem of foreign capital in India

Indian Estimates.

The difficulty of the field work in the foreign capital investments in India have been hinted at in the preceding paragraphs There are very few Indian estimates of the foreign capital in India Firstly the task is extensive and tedious and secondly it requires a great deal of official and non-official assistance Even with all the opportunities and facilities at ones' disposal no firm or person can be compelled to give out its secrets as regards capital investments Mr Gan Shyam Das Birla estimated that before the Great War of 1939 45, foreign investments in India were about £ 1,000 sterling

Mr Shenoy, in his 'The Sterling Assets of the Reserve Bank of India', made an attempt to formulate an estimate of the amount of foreign capital in India in 1939 He has considered overseas Investments in India in seven groups —

1 Sterling debts of the Government of India
2 Capital of Joint Stock companies registered elsewhere than in India but working in India
3 Municipal and port trust loans
4 Capital of joint stock enterprises doing business in India and working in India
5 Capital of foreign rupee companies registered in India and working in India
6 Investments in Rupee Securities
7 Capital in partnership firms buildings, landed properties etc

He has taken the statistics regarding the first item from the report on Currency and Finance 1943-4 page 88 The sterling part of India's public debt at the close March 1939, was Rs 469 10 crores which comes to £ 351 81 million at the rate of 1s 6d per rupee And the amount of the Municipal and Port Trust borrowing as given in the Investor s India Year Book were totalled at £ 8 67 million

Information regarding second and fourth item was derived from official statistics relating to Joint Stock companies in India Mr Shenoy held that companies relating to tea and other plantations, jute, cotton, sugar and coal mining etc from their very nature may be presumed to be working wholly in India and would therefore fall under category (2) They numbered 277 in 1939 with an aggregate capital of £ 33 53 m To same category will also belong companies described as 'railways and tramways', other transit and transport

and other companies He also presumed that in view of the smallness of their average size which will not permit the establishment of substantial interests in more than one country, their activity outside the country may be taken only about 5 per cent So he reckoned 95% of the capital (£ 40 04 m) to have been invested in India So the total foreign capital under the second head amounted to £ 73 57 million

As regards the category (4) is concerned there are great complications At one side we have insurance companies whose Indian interests are however fractional while at the other side there are banking, trading and manufacturing companies with appreciable proportion of their business in India While the rest will fall in between these two extremes In the case of insurance companies he presumed that only 5 per cent of their capital was invested in India

Then in respect of banks he held that the share of Indian interests to the total amount was not uniform Four of the total twenty four banking companies, the Chartered Bank of India, The Eastern Bank, The Mercantile Bank of India and The National Bank of India have probably as much as 75% (£ 10 39 m) of their aggregate capital and reserves employed in India While in rest of the banking companies he held that the Indian part may not be more than 5% (£ 4 12 m) of their capital and reserves

Companies classed under the head 'Navigation' number 18 He also held that most of them are coastal

and river navigation companies operating in the coastal waters of Indian Empire, and the neighbouring countries He assumed that a minimum of 30% (£ 10 65 m) of their capital would fall to the share of the Indian part of their business

In respect of mining and quarrying companies other than coal mining or gold mining of which there were 23 with an aggregate capital of £ 110 82 m he put down the Indian share to be 10% (£ 11 08 m)

Again he pointed out that trading and manufacturing companies are not all big concerns with ramifications round the world though some may belong to that category Official statistics gave the number of 345 with an aggregate capital of £ 344 37 m or an average of some what under £ 1 million per company He concluded with an assumption of 25% share (£ 86 09 m) of capital of such companies pertaining to the country in view of the fact that the 'Industrial and Commercial capital' invested in India (excluding Railways and public utilities) coming within the cognizance of British Stock Exchange intelligence was no more than £ 91 million according to Sir Robert Kindersley's estimation of 1935 (page 33) So it is clear that only a fraction of these companies were large concerns and he assumed that they are mostly of small and medium size and belong mainly to the British Empire Thus under the (4) category, the amount would fall to £ 126 14 million

With regard to classification (5) the British and

foreign participation in rupee companies, no reliable information was at hand to him We face the same difficulty to day Such participation has been achieved by mainly three ways —

(a) When a foreigner establishes fresh companies in combination with Indian capital

(b) When a foreign company acquires the shares of existing Indian enterprise *

(c) When foreigners float subsidiary companies with the word India Limited' in the title of their names

Mr G D Birla once estimated the amount of such capital as lb 100 million for the year 1929 30*[1] The Financial Times put it at £ 75 million for the year 1930 Shenoy took the average of the both figures at £ 87 50 million as an estimate for 1939

The (6) category was that of investments in rupee securities In the year 1917 18 out of a total of Rs 202 15 crores of rupee loans as much as Rs 102 42 crores (£ 66 95 m) or about 49 5 % was held by foreigners But since then the Indian share has been increased considerably Mr Gan Shyam Dass Birla believed that out of a total of £ 413 40 million of the rupee debt only £ 150 million or 36 3% was owned by foreigners Shenoy assumed the share of foreigners

* In 1928 29 the Electrical Bond & Share Co, of America, for instance obtained 50 per cent of shares in Tata & Sons Ltd, a company controlling the electric power supply to Bombay

*[1] 'Economic Journal March 1933 page 170

as 25 % and it came to £ 82 10 m (Total Rupee debt £ 328 41 m in March 1939)

The last item in the classification was that of foreign capital in private partnerships, firms, lands, and buildings It is this class in which one experiences the greatest difficulty while investigating the extent of foreign capital in India There are no pointers to give us an idea For the year 1929 Mr Findley Shirras put it to be £ 19 million though the figures were not the result of any careful investigation

Mr Birla's estimate on the other hand give a figure of £ 140 million for 1932 Though this too is a mere guess work yet it is based on his day to day experience and contact with business of the country Shenoy again took arbitrary round figure of £ 100 million as the likely figure for the purpose

Having dealt all the classes we come to the chart by B R Shenoy which gives the estimates of Foreign capital in India in 1939 *

ESTIMATES OF FOREIGN CAPITAL IN INDIA 1939

	Description	*£ Million*
1	Sterling liabilities of Government of India	351 81
2	Capital of Joint Stock Companies registered elsewhere than in India but working principally in India	73 57

* Figures obtained from 'The Sterling Assets of the Reserve Bank of India —B R Shenoy

3.	Municipal and Port Trust borrowings	8 67
4	Capital of Joint Stock Enterprises with only part of their business in India	126 14
5	Capital of rupee companies registered in India	87 50
6	Investments in rupee securities	82 10
7	Investments in partnerships, firms, buildings and landed properties	100 C0
	Total	829 79

But Mr Shenoy did not put it as such, but he also calculated the actual amount in view of the rising prices He multiplied the amount of foreign capital as shown in the table with the wholesale price index It came to £ 2058 m and to this he added foreigner's share in rupee loan £ 162 40 m making a total of £ 2275 million in March 1945

Our deductions.

It hardly needs mention that wide spread transfers of foreign concerns to Indian hands have not been taken into account Secondly the valuation of these assets at the inflated price is rather irrelevant, because neither the whole of British or foreign investments in the country are to be purchased nor such an inflated price can be paid If at all some change over is to be brought about we will not be required to pay in-

flated and artificial prices and only a reasonable amount will be paid *

Having dealt with the available British and Indian estimates of the foreign capital in India it would be relevant for our purpose here to remark some thing about the recent trend of 'change over' (discussed at length in the succeeding chapter) After the beginning of the second world war the trend became even more significant Even then it would be quite absurd to assume that the major portion of foreign capital in India has been withdrawn There have been withdrawals no doubt, but at the same time there *have been investments in the form of Indo foreign* alliances and 'India Limiteds (discussed in the succeeding chapter) The most authoritative figure of British disinvestments in the country is given by Arthur Bloomfield in his "Britains' Balance of Payments" He surveyed the entire field of British Investments throughout the world and gave the figure of £ 325 million from September, 1939, to June, 1945 We may take £ 75 million as a round figure for other disinvestments in the country which are not British

But as has been pointed out, there have been foreign investments in the country too in these years Mr Birla gave the figure of £ 100 million for that We

* The fact is clear by the recent act of the State in taking over the Kanpur Electric Supply Company, and the appointment of a retired judge of Federal Court to determine the amount of compensation

come to a net figure of £ 300 million as total disinvestments till 1945 So if we take the estimate of Mr. Shenoy of £ 830 million as some what reliable figure for the year 1939, we may conclude that in the year 1945, there were £ 530 million of foreign capital invested in India From June 1945 onwards till now there have been further disinvestments With great changes in the outlook of the British Government towards Indian Self Government and the consequent relaxation of British hold over India British capital also became disintegrating its ties We may take the figure of £ 30 million (net figure) as most liberal figure of changeover during the course of these two years Thus we arrive at a figure of £ 500 million as the total foreign capital invested in India to day (December, 1947)

Having discussed the available estimates and guessed the present foreign investments in the country, it is now opportune to discuss the recent trends that have developed in our country since the beginning of the last global war 1939 45, and after in relation to foreign capital in India

Chapter IV

THE RECENT TRENDS

India limiteds Indo-foreign financial alliances Conversions, Capital Changing hands, Nationalization of public utility concerns

"India Limiteds."

It befits us now to take note of some of the recent trends that have developed in our country during the course of inter-war period and after (1918 onwards). With the growth of Swadeshi movement, national consciousness and with the rise of powerful and convincing slogan 'Buy Indian' some change was bound to come in the general atmosphere of the country. Indians gradually began to patronise their own concerns and avoid dealing with the foreign companies. These foreign concerns established in the country adopted a peculiar characterstic which undoubtedly duped the ignorant and less informed, but forewarned the intelligent group of the country.

To take the advantage of the policy of protection enunciated by the Government of India since 1920 foreign companies began opening their subsidiaries in India, which pass as purely Indian concerns. The giant concerns like Lever Bros (soap), Dunlops (rubber), Imperial Chemical Industries etc have their Indian subsidiaries. These all non-Indian factories

backed up with big foreign capital have started colossal production of matches, cigarettes, soaps, boots and shoes, rubber and chemicals and driven the Indian concerns to wall The only thing 'Indian' about them is the word 'India' which they have included in their titles Important concerns of the type are —

1 Lever Bros (India) Ltd
2 Kores (India) Ltd
3 Caltex (India) Ltd
4 Candy Filters (India) Ltd
5 Dunlop Rubber Co (India) Ltd
6 Goodyear Tyre & Rubber Co (India) Ltd
7 Marshall Sons & Co (India) Ltd
8 Tide Water Oil Co (India) Ltd
Etc Etc

Most of these foreign concerns have proved a great menace to our own industries by their great strength and support by the Government Moreover, as has already been pointed out these concerns essentially take the benefit of protection which should really aim at giving assistance and help to indigenous concerns only, and not to foreign concerns In spite of all this is sad to note that the government of the country took no notice of the fact

Indo-foreign financial alliances.

The global war of 1939-45, has considerably minimized and exhausted the strength of Great Britain as a

world economic power The year Ninteen hundred and forty seven again revealed the border line existense of Great Britain The centuries old economic and industrial supremacy and glory of Britain is fading into insignificance At the same time there has been a gradual development of American economic power United States of America which once was the sphere of influence' of Great Britain is challenging her to day in all respects British businessmen and industrialists are now finding hard to stand on their feet The great British Empire is crumbling down under the stress of international situation In our country too, British business group is manouvering in between the American rivals and the Indian rivals (who have become rivals indeed in recent years) and trying to settle at favourable terms with the latter, in order to face the former

Post war 'Indo British Deals', with the declared purpose of starting new and heavy industries in India, are a part of the policy Behind the plea of mutual co operation and earnest assistance we get a glimpse of the more specific demand of British Capitalism Prof Hill of the Royal Society said frankly indeed, ' They (i e the Indians) have to realise, however, that British Industry is not going to do these things for love only if they were to develop they must go equal share with the people here Going halves seems a fair proposition " And after a few days he speaks, "If for political reasons Indians refuse co-operation that is available, that is their funeral "

Their intentions seem clear that way They want to dig deep into the Indian soil They have immense potentialities left and opportunities for them are not wanting Besides Indian businessmen and industrialists are just pygmies in front of them They have readily received them as they had liked to come Moreover the British being in the control of state machinery held a privileged position and they used this position, for securing a guaranteed share of profits by a combination of lump sum payment as royalities for patents, 'know-how', and by direct shareholding, sales commissions etc, and to become technical dictator in full control of production and often sales organization too

Thus in the famous Nuffield-Birla deal in the Hindustan Motors concern, apart from a fair share profits Nuffields have got definitely full powers to decide at what speed 'Hindustan Motors' are to start actual manufacturing cars in India 'Capital, the mouthpiece of British businessmen in India revealed that Nuffields organization are to manufacture and supply the technical parts which could not be manufactured in India and Nuffields technicians are apparently to decide which componants should be made in India and which in Britain The Bombay Journal 'Commerce' seems to clear all doubts by reporting that the Hindustan Ten Cars which the company is said to be manufacturing have been imported and are being sold in the market advertised as 'First Indian made cars'* "The only thing Indian about it is the name plate", remarked a shrewd observer

*'Capital'—January 3 1946

Again the oldest and biggest monopoly in the British Empire, the Imperial Chemical Industries (I C I) which is day by day going strong has started a joint firm together with the Tatas, India's biggest industrialists for the manufacture of heavy chemicals with a capital of rupees 5 crores Almost no information is available regarding the terms etc but the Associated Press of India (A P I) once reported —

"Untill such time as domestic manufacture is able to meet domestic requirements in full, the dye stuffs marked indigenously and those imported by I C I will be sold jointly "* The immediate outcome of this I C I Tata deal therefore, has been that Indian have the satisfaction of buying dyes imported from Britain but sold under Indian labels—Indian industrialization indeed !

Such examples are not wanting Every year we find that great many combines are formed to exploit the country's resources Capitalists are a community in themselves They hardly discriminate between Indian, British or American The main interest is as regards profit, no matter what the source and the means of earning are

Messrs John Brown of Scotland, the world's biggest shipbuilding monopoly was once reported making a deal with Indian ship builders Deals had already been planned for the exploitation of the mineral sands

* Associated Press of India message—December 22, 1946

of Travancore, vital for developing atomic energy and for exporting them to England The most recent instance of foreigner's anxiousness to enter our country as capitalists is noticed in a recent speech by Dr. Henry F. Grady, U. S. Ambassador in India at the Rotary Club. Dr. Grady said, "We want not only to be friendly and co-operative towards India, we want of-course, India to be friendly and co-operative towards us. *Friendship is always a reciprocal matter.* I have no doubt that our friendship is warmly reciprocated and that despite those who would wish to come between us, and those writers in your country who see wrong in every thing we do, your great country and *mine will go hand in hand as partners in a most earnest* effort to build a better world "

Dr Grady denied that America was seeking control over other countries through the extension of capital assistance to them He referred America's relationship with Canada, Mexico and Latin American countries in which they have made during recent years heavy investments and loans of large sums of money He emphasised that the industrial development of Canada has been financed largely by American funds He also went too far to challenge any one to give instances of interference on the part of America in the political life of Canada or in its industrial evolution He also referred Mexico in which there have been large investments by U S A , but no attempt whatsoever American domination has been made

'Sweet words butter no parsnips' It is not relevant

for our purpose here to enter into a discussion as regards the pros and cons of American investments in our country in future Suffice for our purpose here to remark that in general it is believed that industrialization of India through these deals and similar other combines will prove a myth These deals rather than permitting an independent economic growth of India will lead to inner sabotage of its industrial resources These will tie up India and the foreign country whoso ever seeks alliance, technologically and financially and as the Eastern Economist wrote some time back, "Such technologicalties in heavy industry, history shows, are extremely difficult to disentangle" Thus it is a generally held notion that such combinations are not a very happy sign of our affairs

Conversions.

We have seen in the preceding paragraphs the development of 'India Limiteds' and then the growth of financial and managerial alliances With the increasing national ferver and growing discrimination in the minds of the people with regards to 'foreign' and 'national', one more tendency soon developed Companies which had previously been floated with capital in foreign currency (mostly pound sterling) began to change over to rupee capital Other partnership firms and private limited companies also began converting themselves into public limited companies, that way, throwing some proportion of their capital to Indian investors while retaining a majority of shares directly or indirectly under their own control

The Swedish Match Co, a Swedish concern started with sterling capital was subsequently refloated with rupee capital The Oriental Gas Co Ltd, Calcutta which was originally floated with sterling capital also converted its capital in rupees

Companies which have converted themselves from private to public limited companies are very many The notable examples are Jardine Handersons, Martin Burn & Co, Balmer Lawrie & Co, F N C Osler's, Spencers and Co, etc etc

The two recent examples of foreign companies which converted themselves from private to public companies are Gillanders Arbuthnot & Co, and Shaw Wallace & Co Ltd Gillanders Arbuthnot & Co, Ltd, was formed to take over on March, 1947, a substantial interest in the activities of British managing agency firms—Gillanders Arbuthnot & Co Shaw Wallace & Co, Ltd, incorporated as a private company on the 15th of Jan, 1946, under the Indian Company Act 1913, was converted into public limited company on the 20th of July 1947

'Capital Changing Hands'

Now it would be pertinent to note and examine the trend of capital 'changing hands' in our country which

Foreign companies in India were either floated in India's own currency i e rupee or in sterling Even the Swedish companies and the American companies were floated in sterling The reason is not far to seek Indian currency is linked to pound sterling in England and hence the convenience in dealing

(Now of course, rupee has been delinked from sterling)

has developed during recent years As we have seen in the preceeding chapters that with the growth, development and stablization of foreign government in the country foreign capital got impetus There was all security and safety for the British investments in India Besides, the interests of foreign investors were property safeguarded and in some cases a good deal of privileges were conferred upon them And hence the foreign capital in the country prospered and flourished

The two great wars brought about considerable changes in the world politics and in the world economy too During the inter war period and more so during the last global war 1939-45 foreign capital in India began to disintegrate its ties The grounds for the fact are not very far to seek The rising tide of socialism throughout the world and the declining phase of capitalism gave this tendency Then the acute shortage of capital in the mother country hastened it But there was still more effective reason After the war (1939-45) it became clear beyond any shadow of doubt that sooner or later the Britishers are to hand over charge of administering India to its nationals Besides that the peoples' movement in side the country was strengthening day by day Even the ruling power in Britain was convinced that now it would not be possible for them to retain India as dependency for any longer period And lastly with the fixation of date of transfer of power from British to Indian hands pending a satisfactory compromise between the two major parties (Indian National Congress and the All India Moslem League) of the country there remained not even an iota

of doubt in the mind of the foreign capitalists in the country about the bonafides of the government They did not then see a better future of their investments in India They did not expect the present privileges and safeguards to continue and hence began to liquidate their investments Besides there was an opportunity of rising prices and most of the capitalists began to wound up their affairs for good

As has been already pointed out, in the early stage of our economic development, a colossal amount of foreign capital has been invested in our railways and irrigation projects But the Government of India took advantage of the phenomenal favourable balance trade during 1941 42 in repaying off the loans At the same time it is strange to note that the government had remained totally indifferent to the demand of liquidating by the same mechanism the foreign capital invested in our industries This attitude is in striking contrast to what has been done in U S A, South Africa and Canada British holdings in U S A have been sold off on a very large scale Besides liquidating British holdings in 112 common stocks, 31 preferred stock and 22 Bond issues, some of the investments have been sold off at a loss e g the assets in American viscose The Dominion of South Africa has liquidated practically all the British holdings in South African gold mines while Canada has secured the British owned Canadian securities and Railwaystock *

* 'Utilization of sterling credits in India by Federation of Indian Chamber of Commerce and Industries page 6—7

In India too the trend of 'changing over' developed out of the particular circumstances explained above and could not be checked In the course of our dealing with the estimates of foreign capital in India, it has been remarked that more than about three forth of our foreign capital is British capital and hence we are all the more concerned with British disinvestments in the country Britain, as has already been remarked is going economically and financially weaker day by day The sphere of influence is slackening, and from almost all dominions and countries British capital is disentangling its ties The statement of British Chancellor of Exchequer in the Common-wealth in the year 1944 that Britain still retains more than half of her 1938 overseas investments including those in the British Common wealth must cause some surprise because of the extensive liabilities Britain bears The liabilities of the U K are summarised in the following table —

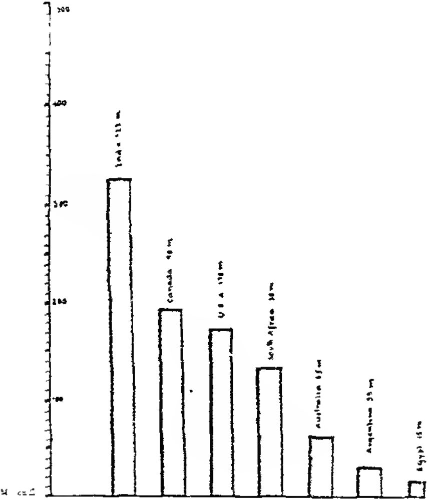
Net Sterling Balances
(£ million)

Countries	As at June 30, 1946	Later figures of Estimates where available
Sterling Area		
(a) Dominions		
Australia	118	178
New Zealand	64	91

Countr es		As at June 30 1946	Later figures of Estimates where available
South Africa		33	23
Eire		179	*191*
		394	483
(b) Other Major Countries, India		1,116	1,217
Burma		11	
Egypt and E Sudan		400	470
Iraq		71	100
Iceland		17	
		1,615	1,787
(c) Colonies, Mandates etc (Total)		650	650
Non-Sterling Area			
Liberated Europe	Total	304	143
Europeon Neutrals	*Total*	108	119
South America	Total	142	216
Rest of the world	Total	64	64
		618	542
Total Sterling Area		2 659	2,920
Total Non sterling Area		618	542
		£3,277	£3,462

Diagram Exhibiting Sales of British Investment in India and other Countries

(*Sept. 1939— June 1945*)



(Compiled from the Economist, February 1,1947 page 204)

Nevertheless relevant figures show that Britain at the end of 1943 retained something like 40 percent of the overseas assets The following figures represent the successive yearly dis investments of Britain

Years	(£ million)
1938	55
1939	150
1940	756
1941	797
1942	632
1943	655

(Figures obtained from Eastern Economist July 7, 1944) graphically represented

All these amounts taken together come to over £ 3,000 million leaving the net total assets at £ 2,000 million Of the amount disinvested about half represents gold, foreign exchange and securities sold while the other half represents the accumulation of other nations, sterling assets Further this later source of disinvestment is bound to increase and continuously too, and would certainly leave Britain with much less than 40 per cent of her pre-war foreign assets in fact by the end of the war *

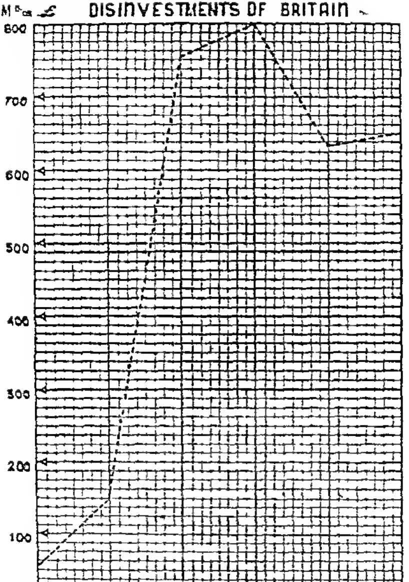
* Eastern Economist, July 7, 1947

So it becomes clear now that a gradual change has been going on since the outbreak of war uptill now, when the war had long ended But as far as the estimates of disinvestments for India alone are concerned, reliable estimates are wanting A recent pamphlet on Britains Balance of Payments by Arthur Bloomfield of the Federal Reserve Bank, New York, deals this aspect It has given a figure of £ 325 million as sales of British investments in India from September 1st 1939 to June 30th 1945 The other relative estimates of British disinvestments in other countries have been exhibited in the diagramme following

From the diagramme we notice that India is responsible for the largest disinvestments during the war period (1939-45) The reason is not very far to seek Douglas Jay while referring to Britain's lost foreign investments states, "During the present war (1939-45) Britain is being compelled to sell her foreign investments at a greater rate than we did in 1914-18 This is because, for the first 18 months of the war, we were prevented from borrowing in the United States of America Whatever may be, *it is practically certain that the net interest payments which we receive from our foreign investments will be greatly diminished to zero after the war is over*" *

Though the possibility apprehended in the remark has not come to be true, yet the trends are correct and there have certainly been a great deal of 'change-over'

* Douglas Jay—'Who is to pay for the war.'



M^ns £
DISINVESTMENTS OF BRITAIN
800
700
600
500
400
300
200
100

even after the war is over And again to seek another reason for the relative importance of India as far as disinvestments are concerned, one ought to take note of huge volume of relative investments in India since very early times, dealt with in the previous chapters

Let us now take note of certain sphere in which there has been considerable relaxation of foreign hold The most affected industries during years are Jute and Plantations Though a majority of share capital in Jute industry has now passed over to Indians, still the control of foreigners and especially foreign managing agents predominate Capital structure in the plantation industry particularly South Indian gives us a better illustration of the trend of change over' At the beginning of the second World War Britishers owned and controlled 82 per cent of the total area under tea and 70 per cent of the acreage under coffee and rubber in South India involving a capital outlay of about Rs 15 65 crores (£8,600,000)

Taking into consideration only the plantation industry in peninsular India during the last 7 years 43,794 acres or 8 5 per cent of the total planted area under the three main crops tea, coffee and rubber have changed from British to Indian hands Another 4,092 acres scattered throughout the peninsula came into Indian hands Besides large amount of sterling capital has been converted into Rupee capital Most of the companies and estates have passed under Indian management and control in lieu of their share holdings In all an aggregate total of 68,734 acres or 13 2 per cent

of the total planted area under the three main crops (tea, coffee and rubber) have changed hands one way or the other These transactions have affected 12 per cent of the tea area, 1 2 per cent of that under coffee and 17 3 per cent of the area under rubber *

Besides that there are hundreds of scattered examples of recent change overs Hindustan Air Craft Co an American concern was acquired by Messrs Wal Chand Hira Chand, the concerns of 'Allen Berri' were acquired by Dalmia Jains Govan Bros Ltd comprising of Indian National Airways, Dharangdhra Chemical Works Ltd, Raza Sugar Co Ltd, and Buland Sugar Co Ltd (Rampur) and Rampur Maize Products Ltd were again purchased by Dalmia-Jain enterprise in 1946

Cotton Mills.

In the cotton mills again this trend of 'change-over' has been more significant during recent years E D Sasson United Mills comprising of Jacob Mills, Rachel Mills, E D Mills, Alexandra Mills, Manchester Mills, and Kirkey Red Dye Works have been purchased by Agarwal & Co, the following constituting the partners —

R R Ganesh Narain, Onkar Mal, M K Moraka, Rameshwar Prasad Bagla and N P Agarwal of Calcutta

* Eastern Economist—May 30th 1947

Again a cotton textile concern in Bombay going by the name of Edward Meyer Mills was purchased by Mr Ram Ratan Gupta of Cawnpore Similarly some time back Swedeshi Cotton Mills of Kanpur which about 51 per cent of the total share capital in the name of Mr Horseman, a Britisher was taken over by Jaipuria Brothers * Besides as has been previously pointed out that foreign managing agents have in most case changed hands That definitely shows that the new Indian managing agents now hold something and the foreigners have sold out a portion of their share capital in many of these concerns The Managing Agency of Apollo Mills has been taken over by Messrs Rajputana Textiles from Messrs E D Sasson & Co The Managing Agency of Elphinston Spinning and Weaving Co has been taken over by Messrs Chidambaram Mulraj & Co from E D Sasson & Co, the Managing Agency of B jh Mills has been taken over by Messrs N K Ltd from E D Sasson & Co

Jute Mills

In Jute too Albion Jute Mills and Lothian Jute have been taken over by Dalmia Jain enterprise from

* Swedeshi Cotton Mills Ltd Kanpur came under Indian management about more than a year ago (1946) Till then it was under the control and management of a British firm headed by Sir Henry Horseman. The latter sold his rights in the company to a prominent group of Marwaries consisting of Baglas and Jaipurias. Later as the year progressed Baglas got out of the group leaving the entire control to Jaipurias Thus Jaipuria Brothers Ltd. are now the managing agents of the company with Mr Mangtu Ram Jaipuria as the Managing Director

Andrew Yule & Co Sorrah Jute Mills has been again acquired by Dalmia Jain enterprice from Meleod & Co

Chemicals.

In chemicals too the Eastern Chemical Works Ltd have been taken over by J K group of Kanpur from E D Sasson concerns, the Dhrangdhara Chemical Works have been taken over by Dalmias from Govan Brothers

Indian press dominated and controlled by fore igners in the country even could not escape the onslaught of this trend 'Times of India Press' was purchased by Dalmia Jain enterprise only recently

Again with the transfer of power from British to Indian hands on the 15th of August 1947, this change over has become still more significant We have seen the winding up of and liquidation of many of the European companies Various foreign clubs which had enormous assets and bank balances have also changed hands United Simla Club, the Allahabad Club had already been wound up Chattir Manzil Club, Lucknow had only been recently wound up Most of the British officers have resigned from their services, others have asked for leave and a few others have been removed There are still others who having served India for so many years now want to be relieved and go home They are selling off their bunglaws, esates and other landed properties with

all the paraphernalia they contain Every day we find a large number of articles, furniture, crockery, cutlery, etc being auctioned in the big cities of Calcutta, Bombay, Lucknow and Delhi and more so especially at various hill stations like Banglore, Mussori, Ranikhet etc Various proprietory botels have also changed hands in these months Besides various messes run by Europeans which possessed enormous amount of bank balances and other belongings have changed hands The notable among them are the Royal Engineer Officer s Mess at Banglore and the mess at Rurkee etc They have passed from British to Indian hands and the foreign nationals have offered these to their Indian bretheren per gratis——a great act of goodwill and generosity indeed

Nationalization.

The old medieval doctrine of 'laissez faire' has outlived its utility in the modern world The conception of the existence of State to day has mostly changed It is no longer believed to be a merely police organization to guard and protect the lives and property of its citizens, but it has to day also the responsibility of providing its citizens with reasonable standard of living and amenities of life The cry of 'nationalization' throughout the universe reflects the same desire on the part of the people It took, its birth from the great and successful experience of the U S S R in national planning In India too the movement of nationalization began to attract the atten-

tion of the Government since a very long time Partly due to great inefficiency of private enterprises and mostly due to unhealthy and miserable conditions of labour under the private capitalists, the movement grew stronger and to-day there is a cry from almost every corner that the state should own and manage all the Industries In the interests of the people the demand had to be partly conceded Indian Railways have been completely nationalized Post and Telegraph is wholly a state concern Tramway and electric supply companies are also in that process Though, the trend has actually begun to operate intensively in the public utility industries yet it is also realized that the country is not in such a developed state to nationalize its entire economy all atonce The various provinces of the country have evolved schemes for a gradual nationalization of public utility concerns Last year United Provinces first big step in nationalization was the taking over of Kanpur Electric Supply Company which was a foreign concern of Messrs Begg Sutherland & Co (*Sept 16, 1947*) Rs *1,33,50,000* was paid to the company as part payment and a judge of the Federal Court was appointed to determine the total valuation to be paid

Similarly there are other definite moves on the part of other Provinces as well, to carry out their schemes of nationalization Reuter's Agency once gave a news regarding the purchase of Calcutta Electric Supply Company (*The Hindustan Times* dated 19th October, 1947) It was indicated that the Government of India

would grant a loan of Rs 2,50,000,000 for which the West Bengal Government is negotiating for the purpose of buying the Calcutta Electric Supply Corporation It was also hinted that according to the Articles of the Financial Agreement of August 14, 1947 between Britain and India the latter could draw on its blocked sterling balances for the purpose

Whatever may be, this new trend of nationalization will surely effect the foreign capital which is working in the country and to that which will seek new entry A large number of public utility concerns and industries are owned and managed by foreign capitalists and if this policy is pursued, they may have to shift to other spheres or to liquidate their affairs altogether Most of the foreign capitalists also feel shy of investing in our country only because of the development of this trend A specific provision, therefore, is necessary on the part of the Government with regard to the limits within which they are going to pursue their policy of nationlization This alone will shelve all doubts and suspicions in the minds of foreign capitalists regarding their entry in our country

CHAPTER V

RESUME OF VIEWS AND COUNTER-VIEWS.

Fiscal Commission report,——External Capital Committee Report,——The claims of foreign interests,——The cry of Indian nationals, Government policy in the changed conditions, What next?

The development of some of the recent trends in our country's economy has been discussed in our previous chapter Let us now analyse the various versions—official and non-official—on the subject of Foreign Capital in India

Indian public opinion with regard to the foreign capital investments in the country did not definitely express itself till 1922 It was the Fiscal Commission that pointed out that some of the witnesses declared to them that they did not wish foreign capital admitted in the country except under definite restrictions The Commission observed that there were mainly two reasons for the distrust of foreign capital Firstly that non-Indian industrial interests finding shelter under a protective policy would work against the political aspirations of the country And secondly the foreign capitalists would refuse to train up Indians

The Commission eventually expressed in favour of industrialization even with the help of foreign capital

They said, "By admitting foreign capital freely India admits the most up to date methods and the newest ideas and she benefits by adopting those methods and assimilating those ideas If she tried to exclude them the policy of industrialization could with difficulty be brought to a really successful pitch We hold therefore that from the economic point of view all the advantages which we anticipated from the policy of increased industrialization would be accounted by the free utilization of foreign capital and foreign resources *

The minority of the Commission in their dissenting statement observed that the Commission have mixed up loan capital with ordinary capital** The minority laid down conditions with regard to the foreign capital invested in manufacturing industries in India These conditions are —

1 That such companies should be incorporated and registered in India in rupee capital

2 That there should be a reasonable proportion of Indian directors on the Board

3 That reasonable facilities shoul be offered for the training of Indian apprentices

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* Fiscal Commiss on Report page 188

** For our purposes we have included both lorn and ordinary capital in our concept of foreign cap tal in India

These restrictions which the dissenting minority proposed were later on endorsed in part by the External Capital Committee in 1925*. The Committee distinguished between the different forms of external capital according to the extent to which such capital carries with it control over Indian industrial organization and Indian natural resources.

External Capital Committee.

The Committee divided the external capital into three categories, namely :—

1. Investments in which the external investor is merely entitled to stipulated rate of interest and only acquires right of control when there is a default as in the case of state or municipal loans

2. Investments in which the external investor enters into the competitive business on equal terms with Indian enterprise as in the case of cotton and other textiles, mercantile houses etc.

3 Investments in which the external capitalists acquire special privileges or concessions of land which give them exclusive rights of exploitation of particular portions of the natural resources of the country.

* External Capital Committee—appointed in 1925, under the chairmanship of the Hon'ble Sir Basil Blackett K C B, 'to consider the question of the flow of capital into India from external sources'

As regards class (1) the Committee did not consider any measure of control necessary, but in case of government and quasi-government loans they added that the rate of interest should not be the sole consideration in placing such loans and that other things being equal preference should be given to Indian investors

As far as class (2) is concerned the Committee after considering the various devices suggested for imposing control, came to the conclusion that restrictive measures would be either impracticable or disproportionately injurious to the Indian investor The most general of these suggestion for control were the registeration of new companies in India with rupee capital and the definite reservation to India investors of a proportion of the shares, stipulation for a definite proportion of the Directors being Indian and the imposing of penal taxation on companies which fail to comply with these conditions

The Committee pointed out that these suggestions can only be applied to new companies and that they will entail a very elaborate system of trade licensing and inquisitorial government control which will tend to prevent the development of private companies into joint stock companies They further held that restrictions on the transfer of shares from Indian to non-Indian hands might possibly increase the yield in certain exceptional cases but this will be largely counterbalanced by their lower sale value on account of the absence of open market for the sale of investments

The other practical difficulties which the Committee apprehended in this respect were the probable evasion of restrictions by the large capitalist and the increased difficulty to the small investor of finding purchasers for which brokers will naturally charge an enhanced commission The Committee's objection to a statutory minimum of directors is based on the right of shareholders under ordinary circumstances to have an unfettered control over their own directorate and on the principle that it would be unbusinesslike and uneconomic to compel companies to labour under a proportion of directors whose business qualifications are only a secondary consideration

The Committee also opposed to keeping subscription lists for new or additional capital open for Indians for a prolonged period on the ground that if Indian subscribers were subsequently allowed to sell them in the open market without restriction, the effect of such a policy on the ultimate control of the company will be negligible and the dislocation created to the commercial machinery would by such a general provision will be incalculable

With regards to the class (3) the Committee were of the opinion that definite restrictions may be imposed They further subdivided the class (3) into two sections

(1) Where the foreign capitalist acquires a definite pecuniary concession, such as bounty, and

(2) Where he enjoys a concession which will enable him to exploit a wasting asset such as mineral concession

In the first case they considered that restrictions ought to be imposed namely that the companies should be registered in India with rupee capital and a reasonable proportion of Indian Directors and a reasonable facilities for the technical training of Indian apprentices should be provided

As regards the second case of mining and similar concessions is concerned they were of the opinion that no definite proportion can be prescribed and matter must be dealt with by the expert departments of the governments concerned, the general criterion being that the concessions should only be granted to external concerns, where it is clearly in the national interests that they should, and where internal capital is not forthcoming on reasonable terms, then only subject to such safeguards as may be suitable in each case

These were the two official versions over the question of foreign capital in India during the last two decades Both of these Committees were government sponsered and they could hardly give their verdict against the British people who had enormous interests in foreign capital invested in India and who as were a matter of fact the masters of the country We also noted that the dissenting minority suggestions of the Fiscal Commission 1921 were in part, endorsed later on,

by the External Capital Committee But the same time it is sad to note that nothing was done to implement the suggestions That has invariably been the fate of most of the Committees and Commissions appointed from time to time during the last fifty years The question of foreign capital again remained a deal letter for a considerable period

The claims of foreign interests.

Ocassionally there were some spotlights showered by partisans and interested parties Government people, the British merchants foreign capitalists stationed in the country and their agents and representatives had always maintained the necessity of foreign capital in India as an only means of its economic development They have from time to time come forth propagating advantages and benefits which the foreign capital has conferred to India, on the other hand the cry of "hands off India" became significant as time passed, from the side of public bodies, Indian nationals and capitalists There was a good deal of debate and confusion on the point

Foreign interests in the country held that India has been industrialized and developed only due to the foreign investments, and it is in her interest to allow as much foreign capital as possible for further development and industrialization Some of them went too far to express 'more of British would mean more self conscious people and paradoxical enough more of swaraj'

The Associated Chamber of Commerce, which represented British interests in India has been of the opinion that any restriction on the foreign capital will tend to retard the development of the country generally and increase the cost of capital e g the Government and other public authorities may be required under the influence of such restriction to pay more for their loans, while the holders of investments may be affected if the restrictions take such form as will limit the market for shares

Another argument put forward by the interested parties of foreign capital in India is that India has been a net gainer due to the foreign investments Lakhs of people have got employment in the industries, thousands of technicians have been trained, untapped resources have been exploited and developed, wealth giving industries have been pioneered, initiated and developed and last but not least the standard of living of our people has been raised They are quick at giving statistical figures representing the rise of standard of living and income per capita over a period of time and they say that the credit of all this goes to foreign capital investments, and the consequent development in India, Australia is quoted as a parallel example where continued borrowing in the London market enabled the Australian artisans to enjoy higher standard of living

The development of South Africa, China, Argentina, Egypt is related to have been made with the aid and

assistance of foreign capital Our rich irrigated lands, our extensive railway projects and flourishing tea, coffee and rubber estates are indicated to represent foreign capital in its true colours

The cry of Indian nationals.

Indian public opinion on the other hand had always remained opposed to unrestricted influx of foreign capital into the country More particularly after 1920 when the protection began to be granted to Indian industries, the discussion has centered round it The economists have argued that protection involves a sacrifice on the part of the country and that it is not prepared to incur that sacrifice so that other countries may reap the benefit If, they further argue, the capital for the new industries which will be started in India, under a system of protection is Indian, the profits from these industries will go to Indians If on the other hand the capital is foreign, the advantages of the Indian consumer's sacrifice will go to foreigners Why should the poor consumers suffer that way ?

Again the nationals of the country have seen and studied the three successive stages of—Merchant Capital—Industrial Capital—Finance or Loan Capital, under foreign rule They have also witnessed the smooth and steady 'change over' from 'traders' to 'rulers' 'Foreign domination comes with foreign capital' has almost become an established fact to them, it was no longer a myth Moreover it is beyond any

shadow of doubt that British capitalists in the country have always helped the British bureaucracy in suppressing the national movement of the country Whether in the business circles or in matter of political controversy British capitalists and their representatives have sided with the Government in suppressing the popular demands of Indians The incidence of Bengal Moslem League Ministry during the times of Bengal Famine 1943 and after, is cited as an illustration It is alleged that it were only the European members of the Legislative Council (Which were all directed and influenced by the Associated Chamber of Commerce—the staunch propagator of British capitalistic interests in the country) who helped the ministry to remain in power, inspite of the fact that there were considerable evidences and charges of maladministration, smuggling, and blackmarketing against the government itself

The argument of India's benefit from the employment of foreign capital again stirs the nerves of various economics of the country 'About 40 to 50 crores of rupees every year have been sent out of the country as interest charges on the investments or reinvested to swell the already accummulated capital'

It is again pointed out that whatever development there has been, is all a lopsided development Key industries which are the life blood of a nation in modern times are conspicuous in their absence There is not a single plant and machine manufacturing industry, no chemical and engineering industry worth the name

A few consumers' goods industries do not mean an industrial development in the real sense of the term 97% of the British capital invested in India before the war of 1914 18 was devised to purposes of government, transport, plantations and finance i e, to say to purposes auxiliary to the commercial penetration of India, its exploitation as a source of raw materials and the market for British goods and in no way connected with the industrial development of the country*

With regards to the raising of the standard of living of the masses is concerned, it has been countered as a farce with facts and figures representing that India had never been so poor as she is to day

So we noticed the arguments and counter-arguments on both sides—foreign interests propagation encouragement of foreign capital and *unrestricted flow* of foreign capital and Indian nationals clamouring for restrictions Various principles of regulation have been enunciated from time to time by various economists and publicmen of eminence The following general principles of regulation of foreign capital and enterprise, which have been too much pressed for, may be pointed out —

1 Speaking generally all those industries and other types of investments which are intended to be undertaken private enterprise should reasonably be regarded as the exclusive field for Indian ownership, management and ultimate control

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* India to day R Palme Dutt

2 In respect of those industries and prospects of which state ownership is decided upon, internal capital should have priority over external capital

3 Foreign companies should not be allowed to acquire special privileges or exclusive rights of exploitation of the natural and irreplaceable resources of the country, or a share in key industries which are important in view of national defence

4 As far as possible, foreign participation rights, if found inevitable should be restricted to a share in the capital without voting strength such as debentures, and not allowed in voting capital This principle will apply also to the external loans, Government and public bodies may raise in case of unavoidable necessity, i e the external creditors will be entitled to only a fixed rate of interest and not the powers of control

5 As far as practicable, other things being equal, offers of technical assistance which do not entail foreign participation rights should be preferred to those which do

6 In those cases where foreign capital is attached to technical aid suitable provisions should be inserted to secure that Indians are given full training in all the technical processes and that ultimate transfer is made to Indian hands according to some time schedule

7 In regard to those foreign enterprises which are already established in India, the policy could be given effect by

(a) provision regarding training of Indians,

(b) periodical inspection of the holdings so as to ensure predominant national ownership

None of these restrictions could be approved and enforced and all this remained a vain cry The National Planning Committee has also contributed something towards the subject of foreign capital in India It passed a resolution in the following words —

1 The investment of foreign capital in our agricultural, mineral and industrial concerns has resulted in foreign control over our economic and political life which has " warped and retarded the national development "

2 That hereafter investment of foreign capital should not ordinarily be permitted to involve owner ship and management in respect of industries of national importance

3 In view of our vast capital requirements in the coming years, we may accept foreign capital only in shape of loans or credits through the state

4 The special statutory so-called Commercial safeguards' should be repealed forthwith

5 Foreign interests now exercising a preponderant control over a certain vital industries in India should be acquired by the state on payment of reasonable compensation either in rupee or in case of sterling companies out of blocked sterling balances

Government policy under changed conditions.

Nothing could be done Time went on There came great political upheavals during the course of last twenty years The world prepared for the second world war and fought it out with all the force, resulting in huge devastation and loss of human life But still the Fascist power, the menace to world civilization had been won over and completely outrooted Britain, U S A, and U S S R returned victorious no doubt, but they found their economy entirely disrupted and dislocated It required reorientation and regeneration The economic condition of Great Britain was all the more miserable Her dominions and dependencies which had fought for her, with or without their peoples' consent, were claiming their independence for her The war was said to have been fought for the defence of freedom and liberty of all the nations in the world How could India then be refused freedom? The freedom of India from British yokes gradually became an international question and Britain

could hardly stick to the old conservative policy of retaining India at all costs without courting disgrace from all the civilized nations of the world The victory of Labour Party in Great Britain again gave a great fillip to the movement of Indian freedom and it was expected and almost made certain that India is to become free within a very short span of time The Interim Government composed of the nationals of the country was given the charge of administering the country With these fundamental changes in the situation economic problems again gained importance and needed reconsideration

It was in February, 1947 that Mr Sri Prakasa M L A tabled a resolution in the assembly recommending executive, administrative and other measures to prevent or check alien hold on Indian economy This again provided an opportunity to the Government to state their policy on the vexed question of foreign capital The resolution as it was worded, was far sweeping in character to be acceptable to the Government and was, therefore, withdrawn But there was absolutely no disagreement from any quarter of the House as to the principle behind the resolution that India should have every right to determine the terms and conditions on which she would accept foreign aid in the development of her resources But the general view was that the government should not act blindly and in hurry The then Minister for Industries Mr C Rajgopalachari (now Hon'ble the Governor of West Bengal) laid emphasis on maximising production by all

methods and with the help of all without being inhibited by any rigid formula India needs capital equipment and technical personnel and knowledge on a large scale, for a wide range of industries and they are not likely to be obtainable except on terms which might involve more than mere payment for goods and services That is the immediate situation that confronts and he can not by any means ignore that factor in any realistic talking of his job Stated in these terms the Interim Government were not averse, at least for that time to allow freedom of action to enter in the country and workout ventures or to enter into mutually advantageous partnerships with the nationals of the country

So we have seen the gradual change in the atmosphere and the general mode of thinking As soon as the popular public leaders came to possess power the entire outlook was changed The persons who were clamouring for restrictions on foreign capital when the country was under the alien hold, remained mum now There began a craze of entering into partnership with foreign capitalists and technicians It was now obvious that our trusted leaders would watch our interests and safeguard our rights There was now no more fear of further exploitation and domination

What next ?

With the emergence of new and free India after the 15th of August, 1947, the position has entirely changed

We have obtained an independent status and now we are the masters of our land It is up to us now to devise ways and means for our further development and prosperity But how to proceed, and in what direction to work ? Our needs ought to be first determined and then alone we can make out our way

Chapter VI

OUR NEEDS

Birth of free country Our state of affairs Pressing need, Sources of finance capital Future of International investments, Britain, Continent U S A International Monetary Fund and the World Bank Our only source

With political emancipation all the manifold complex problems of our country have come to light The future of India to-day is one of the big questions of the world politics and as well of the world economy For two centuries we have been subjected to foreign rule That foreign rule is an event of history now, and we are to-day free to plan our destiny

But our path is not so easy We will have to cross a thousand hurdles before we move on smooth surface Let us for a moment enquire into our economic position and the pressing needs of the hour

Our state of affairs.

Our production of finished steel in 1945 was 1 2 million tons approximately that of tiny countries like Belgium and Sweden while the United Kingdom produced 12 4 million tons and U S A 65 2 m tons Taking another yardstick of industrial development namely electric power there is an equally painful contrast Taking the total consumption of

electric energy in India in 1939 as one unit of consumption Italy consumed 10 units, U. K. 20, Germany 37 and the U. S A. 77. (Vide—A plea for mixed economy—Masni page 2.)

Similarly looking only to home production we notice that it is going on falling year by year with the result that prices have risen enormously. A glance into the general index of wholesale prices will reveal the position.

Bases : *Week ended* 19*th August*, 1939 = 100

Year	*Number*	
1939-40	125 6	(for 7 months ended March '40)
1940-41	114 8	
1941-42	137 0	
1942-43	171 0	
1943-44	236 5	
1944-45	244 2	
1945-46	244 9	
1946-47	266 4	

In interpreting these figures, it should be borne in mind that they under-state the actual price level. The figures taken into account for calculating the index are of controlled prices and it is a fact of common knowledge that controlled prices have been an exception in actual practice and black market prices have been paid by an average consumer. The actual prices may be taken to range from 350 to 400 compared with the pre-war level in place of the recorded index of 266

Besides, the food problem presents the greatest bottleneck in our progress We have been virtually living on imports for the last 4 years We have been eating away our sterling balances our hard earned money which ought to be used for our industrial development alone Our production of food has fallen to a considerable degree If we do not make efforts to produce more we may eat away our entire balances within a few years and then have the liberty of starvation We are to do our best to avoid living on imports We are to irrigate our land, work out dams and canals and put into operation scientific implements wherever possible

We are suffering again from an acute cloth and sugar shortage The production has fallen considerably from pre-war standards According to Dr Shyam Prasad Mukerjee, Minister for Industries and Supplies, the total cloth available for distribution fell from 5400 in 1943 to 4,888 million yards in 1946 In sugar also there has been a great fall in production Thus we find that even the barest necessities of life are year after year dwindling to satisfy the needs of our country's population

Again as has been remarked in the previous chapters, the foreign capitalists in the country did not develop key and decisive industries They only worked out mostly consumers goods industries Ours will be the first task to start certain key industries before we can successfully plan our industrialization Machine

making industry and tools making industry e g will get the first priority We are to begin manufacturing railway wagons within our country, we are to manufacture ships and aeroplanes The engineering industry again is to be developed We can hardly depend on imports now

Pressing need

Everywhere, therefore, we need production Increased production in all spheres is the only solution of all our maladies' Mr C Rajgopalachari, as a Minister for Industries and Supplies in the Interim Government asked in April, 1946 to "make a religion of production" 'Industrialize or perish' or 'produce or perish' is truer to day than it had ever been

Sources of finance capital

All this brings us to the whole question of finance What amount of finance we will be needing to carry out our plans of production and industrialization Will we be able to raise our entire needs within the country? If not, then what will be the other sources? The Bombay Planners hoped to find the finaneies of their 15 year plan from the following sources

Sterling securities	Rs	1,000 crores
Hoarded wealth	Rs	300 crores
Balance of Trade	Rs	600 crores
Foreign borrowing	Rs	700 crores

Savings	Rs	4,000 crores
Created money	Rs	3,400 crores
Total Rs		10,000 crores

There is good deal of criticism as regards the distribution of sources of finance The only reliable item in the whole group seems to be Rs 1,000 crores from Sterling securities These sterling securities are a national asset We have accumulated them out of high prices, starvation, famine and sufferings They, therefore, must be earmarked for the purpose of developing our industries

But the most objectionable item is of 'Created money' to the extent of Rs 3,400 crores to finance the plan Created money is but another name of inflation pure and simple, the dire effects of which we are seeing and experiencing to day in the shape of sky-rocketing price and endless suffering for the vast mass of the people Then we ought not to expect too much from hoarded wealth The habits of the people do not change over night They take time to die

Besides, to start with, our country will have for years to come an unfavourable balance of international payments As against our exports in the coming years and the releases we may secure out of our Sterling balances We shall have certain indespensable imports of plant and machinery to replace the already scrapped one in e g Cotton Textiles and other

industries Again as has already been remarked we can hardly do away without food imports at least for the first five years During the year 1946 47 alone we had to utilize about 100 crores of our Sterling Balances for financing such imports Thus there remains absolutely no chance for a favourable balance of trade at least for the coming five years

Turning homewards it can be guessed that nothing more can be obtained out of taxes under the present conditions The recent budget of the free Indian Union did not introduce any new tax as such Moreover we can hardly expect any serious economies in our public expenditure. Besides there is every likely hood of its going high The recommendations of the Pay Commission are to be considered, the popular demand of the intensive military expenditure is to be partly conceded The two big problens before the newly constituted Indian Union and Pakistan in which both of them will have to incur a great amount of expenditure are the refugees problem and defence These two items alone have resulted in a defecit budget for Indian Union for the period Aug, 15, 1947 to March 31, 1948 to the extent of Rs 26 24 crores

There now remains the domestic borrowing for which we should not be too much optimistic Even this source will not much help our proposed industrialism since in view of our plight as regards acute food shortage, three fourth of it will be needed for capital expenditure on irrigation etc while the

remaining would suffice for expansion of education and provision of medical aids

We can hardly rely too much on savings According to informed circles India saves some 6 to 7 per cent of her national income This too is a high figure for a poor country like India Any high rate of savings, be it by way of compulsion or voluntary saving, will certainly go to necessitate a severe reduction in standard of living of our population Even if we get an increase in the rate of Indian savings in the coming one or two decades, it will fall too short for our purpose

Thus exhausting all the sources at our disposal we will have to count upon a good deal on foreign borrowings and foreign capital These capital borrowings will either be in the form of import of capital goods from abroad, which will be made available to us either as loans or by the way of investment of foreign capital in industrial enterprises in our country What chances we have of securing such loans and capital, and what are the spheres from which we will get all what we need, remains to be examined and investigated

The Future of International Investments.

The source of foreign borrowings for our industrilization and intensive drive for more production raises the whole question of international investments In what countries will we have to seek loans at profitable

terms? How much amount of foreign capital will be required? Various plans in the country predicted enormous expenditure for the development of the country Bombay plan invesaged an expenditure of Rs 10,000 crores And according to Mr Collin Clark, an Australian economist, "You (we) require in my opinion a great deal more capital than even the authors of the Bombay Plan envisaged" He also estimated that for a 2 per cent increase in our real income per annum we will need an investment of foreign capital to the extent of our entire Sterling Balances And by analysing all the available sources of raising finances at our disposal we arrived at the fact that we will have to count more upon the foreign borrowings The figure of Rs 700 crores hinted at in the Bombay Plan as 'foreign borrowings' will hardly carry us through But will we be able to get all what we need? During the inter-war period capital refused to come out due to selfish policies of the nations Will it flow now freely? The world is fast changing and the old technique of capital domination and capital expansion is no longer stronger to-day Capitalism itself is on its decline but still it stays and will take time to die And in the mean-while, therefore, the possibility of international investments cannot be ruled out, though of course they will now be confined to limited spheres At the first instance the chances appear to be bright The United Nations have alredy taken the steps to achieve monetary stablization The World Bank has already begun work and if a reasonable measure of political security is

guaranteed there is no reason why capital will feel shy of moving from one part of the universe to the other

But this entirely be a simple view to accept As for our purpose here we are more concerned about the leading nations who are going to hold a determining voice in the future world capital market It is needless to remark that U S A is going to be the dominant lender nation in the world

Great Britain The economic position of Great Britain has been hinted at various places during the course of our previous chapters The World War 1939 45 has further crippled her economic position Its lending capacity has also been that way deteriorated Moreover it is year by year losing hold over her colonies India, the jewel of British Empire has also become independent. The second World War has knocked down the Empire It is rapidly becoming an event of the past 'relegated to the annals of history' With the disintegration of the Empire, Great Britain's economic power has been affected a great deal Under the circumstances it it difficult to predict any considerable influx of foreign capital in our country from Great Britain

Then again the rising tide of social democracy in Britian will not encourage the trend Further any probable flow of capital may be checked by the Govern ment of Britain if it develops other countries to an

extent significant enough to affect adversely the level of output and employment at home Thus we find that there is very little possibility of outflow of capital from Britain to India for at least a decade to come, unless it be that she is going to effect a second 'Industrial Revolution' immediately which will put her in levels of greater efficiency over the rest of the world This is highly improbable under the present circumstances

During the course of our previous chapters, reference has been made about the recent trend of Indo-British alliances in the economic field of our country Indian businessmen and industrialists have been invited to conferences in Great Britain The press has also been jubilant over the various partnership agreements between the Indian and British industrialists. One of the Indian publication after referring to the potentialities of investment in the iron and steel, hydro-electric projects, railway expansion, tea, jute and petroleum and the need of India for assistance in skill, enterprise and money remarked, "If the British Pound (F) and India Rupee participate to the fullest in the movement then the East and West may join together in the march towards a great prosperity that lies palpably ahead" Moreover from some of the recent partnerships between the Indian and British industrialists it is clear that some of the British capitalists too realize that India provides great and prominent opportunities for investment in industries that already exist and the future investment is full of promise supported by past achievements

On the other hands though there has been a good deal of opposition against this neo economy of Indo-British alliances from the national circles of the country but at the same time the industrialists in India have always been anxious to reciprocate the British capitalist's intentions. Whatever may be, it is certain that Great Britain as such has the least resources to be an active investor in our industries and these 'recent trends' only reflect the capacity of individual industrialists and businessmen who have piled up enormous wealth during the war rather than the nation's capacity for overseas investments.

Continent. Leaving out Britain there is no other country to undertake foreign investments. Europe will itself need millions to reconstruct itself. The five years of Global War, the most exhausting that history has ever known shattered the economic order of Europe as no war had done. An enormous economic wreckage has piled up. Factories and industries that has taken years and years of effort had been totally destroyed. Factories are to be rebuilt, machinery is to be replaced, old industries have to be rehabilitated and new ones have to be started. But where is the capital? Who will assist and facilitate all this enormous work Russia again would not revive its strength for a decade to come. The socialism in the country had never encouraged foreign investments in the past too Sweden and Switzerland may throw some tricklets here and there but it would hardly meet the needs France has its own reconstruction problems Japan

and Germany are out of picture Thus the position of U S A remains unchallenged and undisputed It alone can help in recovery, reconstruction, resettlement and all sorts of developments through out the world

United States of America Various lines of thought dominate the American people Firstly there are isolationists opposed to America's active and extensive involvement in international affairs At the other end there are others who like international participation to the fullest extend which the American people are a bit afraid of Then there are narrow minded American bankers, industrialists and traders who are willing to invest abroad but are opposed to exchange and other controls and also do not like the international organizations like the World Bank and the International Monetary Fund etc which they say, Intend to throw away good American money for bad

The present trend of thinking of the American people and the policy of the American Government is reflected in some of the recent speeches made by Dr Henry F Grady, U S Ambassador in India and Dr J H Holmes, American Philosopher and pacifist who was recently in India as Watmull Tagore Memorial Lecturer Dr Grady expressed great hopes about the future Indo Amercian alliances in the industrial field of India Dr J H Holmes too visualized great future of Indo-American relations

We have seen in the above paragraphs the tendencies of American people Moreover after the World War 1939-45 U S A has gone squandering her dollars throughout the world Some two years back she gave a big (3750 million dollars) loan to U K, then again she has given loans to Greece, Turkey, China etc Too much talked about 'Marshall Plan' is again the most recent example of America's inclination towards capital investments under which the continental countries like France, Italy and Austria will be granted loans for their reconstruction and development

The International Monetary Fund and the world Bank.

There remains now to be examined the new international organizations—the International Monetary Fund and the International Bank of Reconstruction and Development Though the International Monetary Fund has little to do with capital investment as its object is to prevent exchange alterations, eliminate exchange restrictions and expansion of trade, the World Bank will no doubt prove a decisive instrument of capital investment It will no doubt relieve capital defeciency wherever it exists From its objects clause we learn that it will be the main agency to assist in the restoration of the economics disrupted or destroyed by the World War number two Will we able to draw out some loans from this institution for our reconstruction and development ? Though the War had not

been fought on the soil of the country still it does not require any emphasis to state that our entire economy has been severely disrupted by it We can easily count upon the said Bank for some financial help Still one point of fact remains to be noted The Bank's first 250 million dollars loan to France raises important considerations for us The rate of interest charged on the loan comes to $4\frac{1}{4}$ percent per annum —a really very exhorbitant rate, looking to the purposes of the loan and the ideal for which the Bank stands It will be a very costly deal for us if we go in loans from the Bank at so high a rate of interest In domestie market we would easily be able to float a long term loan at about 3 per cent Moreover it must be noted that the rate of interest is higher than what we have contracted to charge on our own loans granted to Siam Government only some months back The big Anglo-American Loan was also given at less than 2 percent Thus how far the said orgnization will have chances of success and how far it will be useful for our purposes remains to be seen

Our only souree

But when we look impartially into these organizations and just try to understand all about them, we find that all these institutions are controlled and dominated by one signle country the United States of America Suffice is for our purpose here to remark that for our industrialization and development for

which we are so keenly striving for, we shall have to count upon to a greater extent on the U S A than on any other country Moreover the only reliable item in our sources of finance, the Sterling Balances may not carry us too far There is every likelihood of Britishers asking us for indefinite postponment of convertibility of our Sterling Balances in view of their acute difficulties In that case a loan from U S A and financial alliances with American capitalists become almost an immediate certainty 'Indo-American alliance' will be a new feature in our economy Will it have any political ramifications too ?

Chapter VII

THE WAY OUT

Foreign capital having political ramifications, Foreign capital feeling shy,—nationalization, civil strife, riots etc ,—Admission of foreign capital,—Entrepreneur capital vs Loan capital, Indo foreign alliances —Some necessary restric tions, Terms of entry,—Undue optism —The way out

'Foreign domination comes with foreign capital' has proved a fact in the past and in the enlightened world of to day even no one can doubt its implications Our own history of the last two hundred years establishes this fact with authority that cannot be divested The early Merchant Bankers with the gradual evolution of times became the industrial Financiers, active partners and eventually the conquerers and rulers of the country They built up strong and vast empire simultaneous with huge capital investments The parent country had been fed and enriched at the cost of our country's teeming millions eking out bare existence at a miserably low standard of living

China would give another illustration of capitalistic domination America though late in the field of capital investments abroad built of a strong 'sphere of influence' in China which still subsists

in one way or the other Besides foreign capital has resulted in great military plunder, trade concessions and preferences over the debtor countries which have gone to flourish the parent countries 'The riches of the Italian cities is quite inconceivable apart from the exploitation of the rest of the Mediterranean, just as the prosperity of the Portugal, Spain, Holland, France and England is unthinkable apart from the previous destruction of Southern Asia and her jewel India"*

Dr J H Holmes stated the other day in a course of speech delivered to the students of Delhi University, "In our times instead of sending troops we send dollars to foreign countries and we build rail roads and industries and manufacturing concerns and take import and export duty The accomplishment of this type of conquest is more effective in terms of wealth than ever done by military conquests" In America he referred that they call this dollar diplomacy for which another refined name is financial or economic imperialism He further emphasized, "whatever may be the imperialistic development of America, the American people have not yet become imperialist minded, we are not yet a people committed to the cause of imperialism Oh ! yes, our industrialization, our dollar has become a dominant power in our life, we may surrender to that power but that has not yet taken place and we are not willing to give our democracy to the control of Imperialism" He also gave a hint that the American

*[1] John A Hobson —Evolution of Modern Capitalism 1930

Government proposes to withdraw forces from China becuase the common man in America does not like the game of exploitation and had put pressure on the Government As Dr Holmes does not represent American Government his words cannot be taken as authoritative for future foreign policy of America But that much is certain that American Government is building up *influences throughout the world* by 'sending her dollers' whatever the 'common man in America may think or feel' The famous Marshall Plan for the continents' rehablitation is a direct move for building American sphere of influence The Plan as has been reviwed by various authorities is more of a diplomatic and political rather than economic

But the situation with us is entirely changed now We are a free country to plan our own destiny and progress Our independent status and rising political consciousness will not allow any foreigners whether they be British or American to dominate our spheres Mr N V Gadgil, Minister for Works, Mines and Power stated the other day that the prejudices held in certain quarters about the utilization of foreign capital were only valid before August 15, 1947 and "now when we are free whether it is foreign talent or capital both are going to be completely under our control and will be made available and acceptable on our own conditions " He also revealed that the Government of India were actively considering the question of encouraging foreign capital either through the agency of foreign firms or foreign governments in the

execution of major projects in the various provinces Hence the fear of American political subjugation and influence cannot be entertained in our case

Foreign Capital feeling shy.

Reference has been made in one of our previous chapters about the development of new trend of 'nationalization' in our country The recent cases of States taking over some of the foreign concerns have also been hinted at Let us for a moment think over the repercussions of the policy over the future foreign capital investments in the country It is certain that the foreign capitalists will feel shy of investing in those concerns which have the least-possibility of being taken over by the State. Times without number, within the course of these six months Government spokesmen and persons in authority have given their opinion that there will always be an open field for private enterprise in this country Neither the State at present has the resources to take the task of all round production nor it intends to do it now It is also admitted essential for our proper development and progress that key industries which are absolutely vital to national interests like steel, chemicals, shipping, banking and insurance should be nationalized But in these respects too the State will take time to function in view of its great responsibilities at the present time But it is certain that the remaining industries will be left open for the competitive private enterprise Pandit Jawahar Lal Nehru

while addressing the Associated Chamber of Commerce in Calcutta gave the general tendency regarding the Government's approach to the problem The tendency he said would be that some of the industries would have to be State owned, or generally to be State controlled Probably they would proceed on the basis of having some kind of public control in the shape of a public corporation A large field he remarked would still be left over for private enterprise He also added that they wanted India to be industrialized as rapidly as possible and in order to do so thay would undoubtedly require help in the shape of foreign assistance and foreign technicians They were not going to stop them from coming, rather they would wel come them

Thus we arrive at the conclusion that the foreign capital which is already invested in the key industries may sooner or later have to change hands or get itself transferred to other spheres The taking over of Electric Supply Company of Cawnpore and Bombay have already been referred But at the same time the foreigners may not feel shy of investing in our country in the remaining sphere which is equally vast and open for the competitive enterprise to function freely

One thing must be specially noted in this connection Though various responsible leaders and Government people have given their opinion on the subject of nationalization, none has yet committed the Government for the purpose Some definite policy regarding the matter must be announced which may shelve all

doubts and suspicions in the minds of foreign capitalists regarding their future in the country

Another factor which may have a deterring effect on the foreign capitalists is the development of civil strife and riotous situation in the country. The years old religious controversies reached climax during the last few months which resulted in great blood shed, destruction and devastation in the country. No body felt secured those days and everywhere in the country there was fear, suspicion and distrust. There were also cases of foreigners being murdered and looted in the carnage in which the two sections of the country so madly indulged. But to day we notice peace and tranquillity returning though slowly but surely in both the dominions of India. Our leader's prophecy that the blood shed and destruction of life and property will be a passing phase has come to be true. And we hope within a short period our leaders' efforts will crown with success in returning to our land the 'good old days'. And hence the foreigners need not make hasty inter pretations regarding danger of life and property in our country and be sure that our national Government is striving to make this country a suitable and worthy place for all sections of people and will always safeguard their interests.

Admission of foreign Capital (Entrepreneur Capital versus Loan Capital—Indo-Foreign alliances).

The beneficial effects of foreign capital and the

organizing power and technical skill behind it do not need any emphasis Until lately indigenous capital had felt shy of seeking those industries in which the success had not been demonstrated Though that tendency has considerably changed yet the gains and benefits from foreign capital and initiative cannot be underrated especially in view of our immence needs The industries to be developed are not only numerous and new but are highly complicated in their technique and gigantic in the matter of mass production

It has been argued in various circles that it would be of advantage to us to admit foreign capital but not the foreign entrepreneur because in that case the profits made by him will leave the country Let us just examine the case In case the foreigner himself comes into the country with his capital, the establishment and development of the industry is easy, quick and certain It is because the foreign entrepreneur brings with himself the entire organization, the whole of experience and all the technical skill he has at his command with the required amount of capital resources It would be as a matter of fact admitting the industry in its entirety The profits no doubt will go to the foreigner as long as no change over' is made

The case will be altogether different if foreign capital is imported within the country without the entrepreneur The local organizers will have to work out the ventures Then looking to the present position of the country it is certain that technicians and expert personnel will

also have to be employed from foreign countries Further more in view of our extensive needs we may not find sufficient expert managing agents within the country and we may, therefore, have to employ foreign managing agents too Thus we find that still a lot of money will go to the pockets of the foreigners Besides that the progress of the expansion is bound to be slow and delayed for an unusually long period during which the consumers will go on suffering under great scarcity and rising prices

The fact remains that in both cases the country has to pay a price for the establishment of a new industry. In one case the price would be the profits which will go to the foreigners for some time till our own capital, technicians and managers are available to shoulder the responsibilities And in the second place the price is the rich salaries going to the foreign personnel together with the miserable lot of the poor consumers who will have to labour under high prices for definitely a much longer period It is now for the country to decide as to what course will be most helpful and advantageous to us for the present We want an immediate development of our industries and resources to relieve the acute scarcity and raise the standards of living of our masses We cannot wait. The verdict will, therefore, definitely fall to the former course

Let us now for a moment discuss again the question of Indo-foreign alliances in the context of new conditions arising out of our newly achieved indepen-

dence and the burning needs of more production today The country, as is well known, needs capital equipment, technical personnel and knowledge on a large scale for a wide and varied range of industrise It is also clear that all these are not likely to be available to us except on terms which will involve more than mere payment for goods and services The foreigners from United Kingdom and the United States of America are clearly asking for partnership with Indian businessmen and industrialists What is to be done now? Are we to allow this activity to grow and develop or should we curb it down and discourage it? Being well-conscious of our immediate needs for production we can hardly be indifferent rapid to foreigners' demand It would be, therefore, in our interests to allow freedom of action to enterprises to enter into such mutually convenient arrangements with foreign capitalists and technicians as will immediately promote the urgently needed production

During the reign of Interim National Government in the country the Textile Machinery Delegation from India concluded an agreement with British Textile manufacturers for the establishment of industry in the country on the basis that the foreign firms are given a share of 26 per cent Similarly in the Imperial Chemical Industries and Tata Combines, for the establishment of a dye stuff industry in the country it was once announced that the Imperial Chemical Industries (I C I) will subscribe 24 per cent of the capital and the remaining 76 per cent will be kept open for public sub-

scription so that the British firm may not get a controlling power

Thus we notice that in these agreements too consideration regarding proportion of share capital to foreign firms has been kept in view As a matter of fact this much becomes necessary too because capital has always the tendency to dominate

Some necessary restrictions—Terms of entry

We have during the course of our previous chapters reviewed the restrictions proposed by nationals of the country against foreign capital Though they do not stand to be relevant for our purpose to day, still we must be cautious against all possible odds When we have decided to accept foreign loans and also foreigners as partners in our industrial undertakings it would be worthwhile to devise some appropriate machinery which will keep watch over the entire economic sphere to secure that foreign interests do not gain hold over our industry and undermine our political sovereignty in the long run It is interesting for this reason to know what precautions a politically sovereign but economically poor nation like China proposed to take in respect of foreign loans of which she was in dire need It is understood that an eleborate system of regulation was worked out for controlling foreign investments (1945) Chinese industry was proposed to be organized in three sectors The first related to completely State owned industries as heavy industries, armaments etc in which foreign capi-

tal could take part by granting loans but no state revenues are to be pledged against them

Under the scheme the second group of industries is to be jointly owned by the State and the private Chinese capital which would consist of many chemical, mechanical and other concerns Foreigners could take part in this respect only as bond or share-holders on permission being granted by special Control Board The last was the free sector in which the foreign investors might negotiate directly with Chinese concerns but the previous approval by the Control Board of the terms investments was necessary Then special permits would also be necessary for operating independently

Whatever may be, we are to be guided by our own interests and needs With no logic of arguments are we to check foreign enterprise and foreign capital in the country Putting any sort of restrictions whatsoever, will be obstructing in the rapid and a swift development of our country merely on sentimental grounds That would be nothing short than commiting economic suicide under the present conditions of acute shortage and rising prices

We are to solve our problems with a firm stand No amount of fear should overshadow us The dread of exploitation by foreign capital and enterprise is reminscence of by gone conditions when foreign enterprise enjoyed a monopolistic position owing to the absence of any competition from local enterprise or capital To day our own capital is leaving off its shackles and we

have a good number of entrepreneurs capable of handling large undertakings. Again with the death of old regime, the old things will also die a natural death. The angle of vision will change. Now it would be certainly intolerable if our country men are not taken as technicians in the industries organized by foreigners. The superior posts will not be barred for us now. We will again not allow any foreign monopolies to exploit our natural resources for nothing. We will also not afford to grant any 'privileges' as such. The foreign interests existing in India and those seeking new entry will have to function on new lines. They will have to create new outlook, new tradition and new temperament. Whether they will function in the right direction or otherwise remains to be seen. But inevitably as Pandit Jawaharlal Nehru remarked, "Such changes when they took place in their (our) economy would change their (foreigners) outlook."

Undue Optimism

One thing should not escape our notice at this particular juncture. There is a loose talk going on in a certain section of our countrymen that there is a lot of foreign capital anxiously waiting for investments in India and especially from the side of the United States of America high hopes are entertained. Believing indeed that U. S. A. to-day is the only country which has the capacity to invest in foreign countries, its limitations should not also be lost sight of. She has squandered much money during recent years throughout the

world And more so, after satisfying the needs of all the sixteen European countries under the 'Marshall Plan' the exportable surplus with her would not be considerable This fact is quite significant from the views of some of the American economists who are clamouring for reducing the grants-in-aid to European countries under the 'Marshall Plan' And hence it would be folly, nay blunder to assume that foreign capital is only waiting the opportunity to come into India in unlimited quantities and the sole task left to the country is to select what she will accept and what she will reject It would be nothing short than 'undue optimism' 'Capital' has also remarked, "The country may well find itself in the position of having to borrow on strenuous competitive terms, and in the circumstances it may eventually be necessary to go rather more than half way to meet the doubts, and hesitations of the foreign lender

The Way Out

Our conclusion, therefore, is that there are strong reasons for pausing before adopting any course which will restrict a free flow of foreign capital into the country We have to consider the fact that to day we are an independent sovereign country and the conditions essential for exploitation by capital are a matter of past, that a vast capital is essential for any thing like an adequate industrial development of the country that under the present circumstances of world capital resources, 'dollar scarcity' and 'sterling confusion' nothing like an adequate supply of foreign

capital is likely to be attracted to the country, that the competition of foreign capital in the country would lighten the burden of protection on the Indian consumers, would increase the efficiency of Indian producers, would shorten the period of infancy of our industries, and would give our country a world of much needed experience, organization and industrial environment Looking to these facts the question of restrictions seems wholly irrelevant Even then if after a little while we notice that under free competition huge amounts of foreign capital are attracted in the country which may happen to undermine our economy or affect our political sovereignty in the least, we would be at liberty to put a stop to it

Let us, therefore, be brave in extending our invitation to foreign capitalists and technicians, to march in union and co operation with them, towards industrialization of the country wherein lies our real strength

CHAPTER VIII

CAUTION

The passage of time—Enormous tasks accomplished—Review of present world conditions—India s neutrality—Her own development its main concern—Defeciency of capital resources—American's growing interest and comments—Pt Nehru s statement on Foreign Capital—Industry Ministry s Bill to develop, regulate, and control industries—A fear—Caution

Two years of independence have passed The new born independent nation could very well stand the onslaughts due to her by destiny The refugee problem has been faced with great courage, strength and tolerance, the communal riots have completely subsided (no one talks of them these days) the states' integration is practically on completion, the Hyderabad problem being solved with excellent statesmanship, the Kashmir problem has been entrusted to the good offices of the U N O, the food problem, the greatest of all has been taken up on war emergency level, inflation is fought with great caution and wisdom, the production level has been given a push by enlisting co-operation from capitalists as well as labour, and what not Whatever has been done is mainly the result of element of time and defeciency of resources Given about ten years of peace and order, this country of ours must stand, and stand well, to maintain the dignity which was once

ours That is the verdict of almost the entire thinking world today

People throughout the world have been watching with great keenness and interest the affairs of this country and they really stand amazed at the speed we have been marching with the able guidance of our devoted leaders towards progress, power and prosperity The whispers, voices and cries of mismanagement bribery and corruption today are more due to the fact that the foreign bureaucratic rule in this country for two hundred years corrupted our entire economy and we have inherited a bad estate Then the five years of global war brought down the morale of the people of this country and the sudden investing of the power corrupted them to the core Nevertheless the people at the helm are cautious and conscious of the rot and it will not be much long when things settle well and we move forward

This firm conviction of our speedy progress and future prosperity has made most of the nations of the world interested in us and our economy

Then besides that India holds today great strategic position With the almost fall of Great Chinese Republic, with the internal disorder and civil strife in the neighbouring country of Burmah, India is the only country in the East which can hold the natural leadership of this half of the hemisphere The entire world divided ideologically into two warring camps today look to India for friendship The United States

of America is keen in developing relations and friendship of a permanent order with this country so that this may be used as defence against the mighty forces of rising communism Great Britain is interested in the country because of its ages old relations and as a group ally of the U S A Another big power, the Union of Soviet Socialist Republic also looks to India for friendship We are however, maintaining cordial and friendly relations with all the nations in the world without falling in either of the groups or camps That has been our foreign policy and we hope to stick to it

We take this position because we do not believe in war, we believe in peace We are the land of Great Mahatma Gandhi, the apostle of peace and non-violence We are essentially interested in peace, progress and prosperity of the 300 million people who have been entrusted to us and we are to raise them from the level of abject poverty to that of plenty But the greatest hurdle in our path today is our meagre resources and deficiency of finances After spending a great deal on refugees, food and defence there remains little with us for our construction and development plans

There shall remain least doubt in the minds of the readers after reviewing the previous chapters regarding the need of foreign capital in the country Admitting of course, that there is a small group of capitalists in this country who might be on strike with a view to

put the Government in an embarassing position for the purposes of obtaining greater reliefs for production purposes and thereby causing artificial stringency in the capital market But that is not much, and our ambitious plans in the matter of food production, transportation, irrigation and industrialisation can never be expected of implementation without foreign capital, loans and assistance It was only with this belief and conviction that India approached the World Bank for a loan and got it That is indeed true that the loan has been granted under definite condition, that it shall be only used for the purposes of developing transport and agriculture, it does not make our case regarding foreign capital weak This very limitation in our agreement has given chances to the people who have taken up the opposition stand in this country to blame and abuse our national Government The same charge which was once true for Britain is levelled against America these days The development of agriculture is attributed to supply the needs of agricultural raw materials to the U S A and the development of transport, to facilitate their export Some of the journals and papers who propagate the communist and socialist stand in the country have put these agreements as 'selling' India to foreign powers Our Finance Minister (Dr John Mathai) has been termed as an 'imbecile' and our devoted leaders have been warned not to allow any foreign capitalists to enter and dominate our economy The line of arguments of these opposing groups is the same age old argument of 'foreign domination' They say that the flag follows the trade, that it

was the manner of the beginning of the Portugese, the French and the British possessions in India While India kept open door to all nations, the traders became the rulers of this country Though much weight cannot be given to these irresponsible and unconvincing arguments still one cannot connive at them altogether As a matter of fact too much speaking on the subject by the former U S Ambassador in India Dr Grady, has made some of our people suspective about their bonafides (Americans') It is indeed strange that Dr. Grady in reply to the pleadings of the Indian capitalist class and the Government of India for an American loan made clear so many times that in order to obtain American aid or cooperation, Wall Street would have to be satisfied about some basic conditions They were mainly the absolute freedom of enterprise, the supression of the communist party, the categorical liquidation of all talk of nationalization of industries and restriction of foreign capital Another important note which he sounded so many times was that India should clear up her attitude on the question of 'communism' and the Soviet Union and that she should tie herself with the Anglo-American block

After Dr Grady's term of office his successor Loy Henderson has almost endorsed the same in his speeches

As a matter of fact a nation of 300 million souls, having become free from foreign yoke can hardly be dictated terms Then 'history repeats itself' is not

absolutely a dead slogan The conflicting ideologies in the country have made the mess of all affairs and it becomes difficult for a layman to make correct judgement on any of the controversial problems facing the country The sophisticated speeches of these American ambassadors and the endorsement of the same by the capitalist class in the country aroused great many suspicions in the minds of the people An official policy on the point was keenly felt It indeed came to be a lightning flash when it was ultimately announced that Pt Nehru was to make a statement on the subject The entire country looked for that The statement of Pt Nehru was neither a reply to the claims of the spokesmen of the U S A nor a promise to follow their dictates It was simply a statement of policy which was long awaited

The Prime Minister stated that Indian capital needs to be supplemented by foreign capital not only because our savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, industrial and technical knowledge and capital can best be secured along with foreign capital Pt Nehru went on, 'In this context foreign investors, would no doubt, wish to have some clear indication of our policy on certain matters like the repatriation of capital, the remittance of profits and the treatment of foreign enterprise vis a-vis Indian enterprise I propose to make the policy of Government quite clear in this matter In the first place I would like to state that Government would expect all under-

takings Indian or foreign to confirm to the general requirements of their industrial policy. As regards existing foreign interests, government do not intend to place any restrictions or impose any conditions which are not applicable to similar enterprises. Government will also so frame their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous'. "Secondly" Pt. Nehru went on "Foreign interests would be permitted to earn profits subject only to regulations common to all We do not forsee any difficulty in continuing the existing facilities for remittance of profits and Government have no intentions to place any restriction on withdrawal of foreign capital investments but remittance facilities would naturally depend on foreign exchange considerations" "If however", Pt. Nehru continued, "Any foreign concern comes to be compulsorily acquired, Government would provide reasonable facilities for the remittance of proceeds Thirdly if any foreign enterprises are compulsorily acquired compensation would be paid on a fair and equitable basis as already announced in Government's statement of policy" The Prime Minister continued, "Government have stated before that as a rule the major interest in ownership and effective control of an undertaking should be in Indian hands. They have also stated that power will be taken to deal with special cases in a manner calculated to serve the national interests Obviously there can be no hard and fast rule in this matter Government will not object to foreign capital having control of a concern for a

limited period if it is found to be in the national interest and each individual case will be dealt with on its merit In the matter of employment of personnel, Government would not object to the employment of non-Indians in posts requiring technical skill and experience when Indians of requisite qualifications are not available, but they attach vital importance to the training and employment of Indians even for such posts in the quickest possible manner" Pt Nehru went on "I should like to add a few words about British interests in India which naturally form the largest part of foreign investments in India Although it is the policy of the Government of India to encourage the growth of Indian industry and commerce, including such services like banking, shipping and insurance to the best of their ability there is and will still be considerable scope for the investment of British capital in India These considerations will apply equally to other existing non Indian interests The Government of India have no desire to injure in any way British or other non-Indian interests in India and would gladly welcome them contributing a constructive and co-operative role in the developement of India's economy".

Pt Nehru's above noted statement will reveal that there is nothing like 'selling out' of India to foreigners How could those leaders who have fought all their lives for the political independence of the country be a party to the 'selling of' this country Thinking in these terms is betraying our leadership and committing na-

tional crime While accepting need for securing foreign capital as the best method of importing technical skill and equipment in the country, he was careful enough to emphasize that there would be sufficient safeguards to prevent a repetition of past history in connection with foreign capital in India He repeated that major interests and control would be in Indian hands leaving, of course some exceptional cases when some relaxation might be made in national interests The foreign capitalists and Government spokesmen must note that we are not going to follow their dictates which might be detrimental to our national sovereignty in the least Though as a general policy we are trying to keep sufficient field open for private enterprise, we are suppressing undesirable elements in the society and do not propose to launch immediate nationalisation programme, we cannot be expected to follow dictates from outside We are welcoming foreigners and foreign capital on a mutually advantageous basis, and not out of desperation, frustration and absolute weakness

The readers who have looked into the Dominion Parliament's recent bill, (6th April, '49) for the purposes of providing development, regulation and control of certain industries shall have noted that our Government is quite cautious and conscious of its country's good The bill is certainly a landmark in the sphere of economic planning in the country The bill provides for machinery by which existing industries will be registered and undertakings will be licensed by the Central Government Rules will be made by

Government regarding the conditions under which licenses will be given and for regulating the production and development of industries It has been also proposed in the bill to work by the counsels of an Advisory Council The rules for the working of the bill shall be framed by the Central Government on the recommendations of the Advisory Council The rules will cover arrangements for stimulating the development of industries, regulating production, use of raw materials, fixation of standards, training of technicians and labour, collections of any informations or statistics, manner of registration, conditions and procedure for the issue of license and so on

The bill, of course, has again given a disappointing tinge to the foreign capitalists But there is no cause for despair The bill seeks to control and regulate local as well as foreign industries in a similar way without any discrimination Of course the ages old privileges shall go and there is no justification to retain them

The indigenous capital which was feeling shy due to loose talk on foreign capital since now—has been given strength by the wise and well thought out statement of Pandit Nehru Besides that the Government of India have recently appointed Fiscal Commission to make recommendations as to the policy that should be adopted in future in regard to protection or other assistance to industries

As a matter of fact during recent months a number of complaints have been noticed in various journals and papers regarding the competition of foreign capitalists who have established or are planning to establish their industries in the country Surely of course if no consideration is paid to the infant nature of our newly started industries in the face of competition from foreign capitalists, that would be great injustice to the country as a whole

CAUTION LET OUR NATIONAL GOVERNMENT THEREFORE, MOVE, FORWARD WITH THE CO OPERATION OF ALL WHO SO EVER ARE WILLING TO OFFER IT ON MUTUAL TERMS BUT MOVE WITH A BIT OF CAUTION CAUTION SHOULD BE OUR WATCH WORD

APPENDIX I

It has been revealed during the course of discussions in the Union Parliament in the month of February, 1948 that the Government was formulating proposals for the employment of foreign capital in Indian industries. In pursuance of this policy five combined Indo foreign undertakings with an authorised capital of Rs 617 lakhs have been sanctioned by the Examiner of Capital issues. They are —

Name of the company	*Manufacture*	*Issue* (Lakhs)
Goodyear Tyre & Rubber Company (India) Ltd	Tyres	Rs 300
Triveni Tissues Ltd	Cigarette paper	,, 130
Acme Aluminium Rolling Mills Ltd	Aluminium foils and linings	,, 25
Parimal Ltd	Textile Machinery	,, 150
Lewis & Tayler (Mysore Ltd)	Woven beltings and Fire hose	,, 12

There is also an enquiry from Sorabji Nowroji & Co of Bombay about a proposed factory to make umbrella ribs and handles with non-Indian manufacturers

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APPENDIX 2

FOREIGN INTERESTS IN INDIA

Thirteen companies involving foreign interests were recently reported to have received the Government of India's consent for issue of capital. Thirteen more companies have been authorised to issue capital.

These companies will manufacture a wide variety of goods, including bicycle frames, printing inks, drugs, electric equipment and corks.

Other applications are under consideration in which capital to the extent of Rs. 5 crores and less is involved. They concern maintenance and operation of heavy earth moving machinery, manufacture of heavey electrical equipment, manufacture and distribution of radio products, mica mining, button making, manufacture of sari borders, import of industrial chemicals, manufacture of sport goods, dry storage batteries etc.

The following are 13 companies to which consent has been given :—

1. T. I. Export Ltd.	For the manufacture of metal tubing, filing rod, bicycle frames etc. Rs. 3,00,000/-
2. J. B. Advani & Co. Bombay	Printing ink. Authorised capital 2,50,000 out of wihch shares to

		the value of Rs 62,500 will be issued to the firm of Lorilleaux and Bolton
3	British drug House (India) Ltd	Authorised capital 5 lakhs
4	Thomas W Ward (India) Ltd	For the manufacture of electrical equipment and agricultural implements Authorised capital 5 lakhs, but present issue 1,25,000 which will be issued entirely to Thomas W Ward Ltd Sheffeld
5	Cadbury Fry (India) Ltd	For the manufacture and sale of chocklates and confectionery
6	Crompton and Parkinson Ltd	Capital involved is Rs 10,00,000 taking over a running company in Madras of the same name
7	General Electric Company (India) Ltd	For the manufacture of electrical equipment and import of electrical equipment and accessories Capital involved is Rs 5 lakhs
8	E Green & Sons Ltd	Authorised capital Rs 1 lakh shares to the value of Rs 75,000 to be issued to E Green & Sons Sheffeld

9	Smith India Drug & Essence Co	Further issue of Rs 50,000
10	Indian Commercial Cork Co	For the manufacture of corks Further issue Rs 48,000
11	Indo Belgian Engineers Co Ahemdabad	Rs 4 lakhs to be Issued to a Belgian National
12	Ashok Motor Ltd Madras	Authorised capital Rs 2 crores *Issued 20 lakhs* Foreign Rs 1,37,000
13	Indian Mining & Construction Co	Issued capital Rs 45 lakhs Foreign capital Rs 23 lakhs

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